

COMPETITION IN REAL ESTATE AND MORTGAGE LENDING

HEARINGS

BEFORE THE

SUBCOMMITTEE ON ANTITRUST AND MONOPOLY

OF THE

COMMITTEE ON THE JUDICIARY

UNITED STATES SENATE

NINETY-SECOND CONGRESS

SECOND SESSION

Pursuant to S. Res. 256

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COMPETITION IN REAL ESTATE AND MORTGAGE LENDING AS IT AFFECTS THE HOUSING CRISIS—NEW YORK

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HOUSING HEARINGS

MONDAY, MAY 1, 1972

U.S. SENATE,
SUBCOMMITTEE ON ANTITRUST AND MONOPOLY,
COMMITTEE ON THE JUDICIARY,
Washington, D.C.

The Subcommittee on Antitrust and Monopoly convened in room 1202, New Senate Office Building, at 10:30 a.m., the Honorable Philip A. Hart (chairman) presiding.

Present: Senators Hart and Fong.

Staff present: Howard O'Leary, chief counsel; Jack A. Blum, assistant counsel; and Peter M. Chumbris, minority counsel.

Senator HART. The committee will be in order. Permit me a very brief opening statement, and it may be that Senator Hruska and others will have a statement to be presented, in which case we will receive them for the record, and in such case they will be printed.

If advertising and certain national traditions are to be accepted, when we think of housing we are supposed to think of happiness and all of the concepts that go with it.

The truth is, for millions of Americans, these happy visions are rarely and sometimes never attained. To those people, housing means filth in the halls, overcrowding of the houses, and the now customary thing is to be having babies bitten by rats in cribs, general discontent and heightening of tensions. Prisons, not castles, describe such homes.

In 1968, the Congress with the new determination and high hopes enacted legislation for programs designed to put every American into decent housing. It is 4 years since we did that, and the facts continue to bombard us, making us realize again that dreams and hopes have not been realized, and some would suggest that it is also so, that it is unrealistic to think even with the strong financial assistance from the government that lower income families can live in homes that are safe and clean and where happiness is to be found.

For support, critics of the program point to the foreclosures which are creating new shambles and slums in our inner cities. What these critics seem to overlook is that, not only are the programs designed to clean up the housing, but also the traditional FHA programs that have put so many middle-income families in homes over the years are experiencing these same problems.

This subcommittee, with its responsibility to analyze the operation and competition, last year began trying to determine if faulty competition might be contributing to the failure of our housing programs. We decided to look more closely at the major organizations upon which we rely for the implementation of these programs, the financial and the real estate businesses.

In the process, we became more familiar with the human misery, the failure of these programs which were causing this, not only for those who were moving into the housing, but those who were literally forced out; the total social cost to all of us when cities are destroyed, the alienation of the people is magnified, and tax dollars are already wasted.

Our interest in all of them is to determine if there is a way to correct the anticompetitive practices which have crept into the programs, so that the programs, these and others hopefully to come, will have a better chance for success. That is why we are here today. It is not so much to point fingers of guilt. If we seek to do that, we could begin with ourselves here in the Congress. But to learn from these past mistakes, so that we can take steps that will prevent them in the future.

As with so many undertakings around here, I suppose the book-makers would quote odds against the success of this, too. At least we will try. We have been trying.

I recognize the very able Senator from Hawaii, Mr. Fong.

Senator FONG. Thank you, Mr. Chairman.

I am very pleased that you have called these meetings. Adequate housing is one of the greatest needs of our people in the United States. This hearing comes at a very timely moment, and I do hope that we can focus our attention on this problem in the next few days.

Thank you, Mr. Chairman.

Senator HART. Mr. Chumbris?

Mr. CHUMBRIS. Thank you, Mr. Chairman.

Mr. CHAIRMAN, I have two insertions for the record, one of them by Senator Taft, who placed in the record on April 27, and I read just briefly from it, and I quote:

We have received news of massive housing frauds involving government subsidies from New York, St. Louis, Detroit, Philadelphia, and other cities. At the same time, the expense of maintaining these programs has mushroomed.

On the second page, he continues, and I quote:

It is the executive branch of government, rather than the legislative branch, which can and must respond to the housing standards effectively and immediately. Secretary Romney has demanded that the administration of FHA programs be tightened up, speculators and other fast-buck artists can no longer be allowed to take advantage of these programs and the low income Americans that they serve.

To get rid of speculators, the FHA will have to upgrade its inspection procedures for existing housing, because home buyers consider FHA approval as proof that a home is in good shape. The agency cannot be content with just to appraise these dwellings.

The article continues, Mr. Chairman. Also, Mr. Chairman, on the same day, April 27, in the Congressional Record at page S-6803, Senator Packwood on behalf of Senator Percy placed an address by Senator Charles Percy dealing with the general subject matter of housing.

It goes into great detail and covers some of the matters we are going to discuss in these hearings. And in lieu of an opening statement, I ask that unanimous consent be given for both these articles to be placed into the record.

Senator HART. Without objection, they shall be.

(The two articles referred to follow.)

Senator HART. Let us begin first by welcoming representatives of a number of cities. It is my understanding that the testimony will be

presented by Mrs. Gail Cincotta, chairman of the National People's Action on Housing. She will be accompanied by a group formed just a few weeks ago, the National People's caucus, I believe, who will attempt to pinpoint in the communities from which they come some of these things that require study and correction in those communities.

Would you come forward, please?

Do each of you swear that the testimony you will give in this proceeding shall be the truth and nothing but the truth, so help you God?

(Whereupon, the oath was administered to: Mrs. Gail Cincotta, 541 Monroe Street, Chicago, Ill., chairman of the National People's Action on Housing; Mrs. Gloria Lopez McKnight, 335 Piper Boulevard, Detroit, Mich., president, Latin American Coordinating Council, Inc.; Rev. Richard M. Dodaro, 3808 West Iowa, Chicago, Ill., chairman, Our Lady of the Angels Real Estate Committee; James H. Sporleder, consultant to Freedom of Residence, 5868½ Delmar, St. Louis, Mo.; Walter S. Brooks, president, Northeast Community Organization, 4333 York Road, Baltimore, Md.; Mrs. Carmel McCrudden, 6617 Haddington Street, Philadelphia, Pa.; and George D. Gould, Community Legal Service, Philadelphia, Pa.)

Mrs. CINCOTTA. I do.

Mrs. LOPEZ MCKNIGHT. I do.

Reverend DODARO. I do.

Mr. SPORLEDER. I do.

Mr. BROOKS. I do.

Mrs. MCCRUDDEN. I do.

Mr. GOULD. I do.

Senator HART. Mrs. Cincotta, would you state your name and address and before you give us your statement will the others identify themselves for the record.

Mrs. CINCOTTA. My name is Gail Cincotta. I am chairman of the National People's Action on Housing. I live in the city of Chicago at 5401 Monroe Street.

Mr. SPORLEDER. My name is James H. Sporleder. I am consultant to Freedom of Residence, 5868½ Delmar, St. Louis, Mo.

Reverend DODARO. I am Rev. Richard M. Dodaro, 3808 West Iowa, Chicago, Ill., chairman of the Our Lady of the Angels Real Estate Committee.

Mr. BROOKS. I am Walter S. Brooks, president, Northeast Community Organization, 4333 York Road, Baltimore, Md.

Mrs. MCKNIGHT. I am Gloria Lopez McKnight, 335 Piper Boulevard, Detroit, Mich., president of the Latin American Coordinating Council, Inc., and executive committee member, National People's Action on Housing.

Mrs. MCCRUDDEN. I am Mrs. Carmel McCrudden, 6617 Haddington Street, Philadelphia, Pa., chairman, and I am also a homeowner in Philadelphia.

Mr. GOULD. My name is George Gould. I am an attorney with Community Legal Services which is at 313 South Pier Street in Philadelphia.

Senator HART. Thank you.

STATEMENT OF MRS. GAIL CINCOTTA, CHAIRMAN, NATIONAL PEOPLE'S ACTION ON HOUSING

Mrs. CINCOTTA. We all have prepared statements that we have submitted copies to the committee on, but I would like to start off and explain the National People's Action on Housing.

The frustrations that brought it about, we had a meeting in Chicago a month ago, a housing conference in Chicago, and we were frustrated and talked to our comparable people in other cities, and found out their frustrations were the same as ours.

We pulled together a housing conference and wanted to see if the people were going to come and what their feelings were on the subject. They came from 38 cities and the District of Columbia. We have 1,600 delegates. There were over 3,000 people in the 3 days of the conference.

What they brought to the conference was the same thing that is happening in every urban center in the United States, the frustrations, the changing communities, the abandonment problems, the pull out of the savings and loan, the conventional money.

There is no rehab money. The redlining of our communities and what you are seeing here today, Senator, is the frustration. We can give you a written statement. We are saying, though, that the files in Washington are full of testimony. They are full of documentation. We do not know when there is going to be action taken on them.

What we see in our newspapers is that one day it hits the headlines in Chicago that there is a hearing, that there is redlining, and there is nothing done. For one day it hits in Philadelphia that there was a hearing, and there is nothing done. And it is on and on.

What we did in Chicago was a group of blacks, whites, and latinos got together and we identified the enemy. We found out that it was not us; that it was the real estate companies, the insurance companies, the savings and loans and banks and the big powers. And, to our amazement, it is the Federal Government, the FHA, and HUD that is destroying our communities.

We see, as I said, that the testimony is being swept under the rug. We see administrators in FHA and HUD talking about basic human needs for housing just like they are talking about production lines of cars with built-in obsolescence. The frustration of us is how are we going to get something done?

Our opinion is we are going to be the watchdog committee, the people's committee to make sure that action follows, to make, sure it is not swept under the rug again. We will support any committee which will support the testimony. We want to follow through. We do not want realtors deciding where we are going to live, when we are going to live there, when we have to move.

We would like to go and tell you about ourselves from the personal experiences, what a changing community means. You know, it is in the headlines, and it is called a natural phenomena. We say it is not natural. It is collusion. It is a conspiracy, either in fact or de facto. It is happening in our communities.

I have a statement here of Mr. Harold Finger, the assistant secretary for Research and Technology, one of the gentlemen running the HUD office, and he says and describes housing abandonment as a natural part of the living and dying. He says it is a process of the

neighborhood. He says rather than a problem, it should be viewed as an opportunity. Is there any evidence that will ever lead us to believe there will be a reversal? We are saying these are the officials, these are the mental attitudes they have about our communities, about FHA and HUD programs.

Again, what does a changing community mean? Any of you gentlemen ever live in one? I live in a community that has changed. It is predominantly black and you cannot get conventional money to build housing a certain way. You have to come up with a plan, and that is FHA.

Under HUD's 203 program, they say they are color blind. My community school, where my 9-year-old goes, the community changes and in 3½ years the enrollment went from 975 to 4,000 children in an elementary school.

My son is a policeman in the ghetto area. If my son gets killed from people, frustrations, and hate it could be due to the money people pitting blacks against whites and, like, chicanos against whites and black, it is going to be due to the money people.

My parents live with me. They had to move. They are in with me. They cannot afford the frustration of going through another changing community.

My grandparents, even older, are not allowed to live out their lives in peace. My grandfather gradually went blind in a home he knew and could get his way around because he knew the house, and he was moved into a home that he had no way of learning or relearning at 80 years old how to get around. He took to his bed.

This is the personal element in a changing community. It is the pitting of people against each other, while insurance companies, the FHA, the mortgage houses go off scot free. They never spend a minute in jail. They are never called to account. They sit down in the corporate board rooms and make up plans for our communities.

We have 20 realtors that draw their own red line. They decide which section is going to change next. This is the problem we are dealing with.

I can read a statement that says the same thing. You all have it for the record. What I would like to do is, at this point, turn it over for a few minutes to each of the people from the different cities to let them tell you what is happening in their cities. [Applause.]

Senator HART. May I ask that we not reflect our reaction, either favorably or unfavorably? The hard truth is it adds nothing to the persuasiveness, to the argument, and it takes up the time of the witnesses.

Yes, Mrs. Cincotta, we would be glad to put your full statement in the record at this point.

(The full prepared statement of Mrs. Cincotta follows. Testimony resumes on p. 8).

STATEMENT OF THE NATIONAL PEOPLE'S CAUCUS BEFORE THE SENATE ANTI-TRUST AND MONOPOLY SUBCOMMITTEE

My name is Mrs. Gale Cincotta. I appear before this Subcommittee as a spokesman for the National People's Caucus, a coalition of 368 grassroots organizations representing the white, black, and brown people victimized by the conspiracy between real estate brokers, mortgage lenders, insurance companies, and FHA which your Subcommittee is investigating. I speak on the basis of the resolutions and demands of the National People's Caucus which represent our

collective experience and knowledge. I also speak specifically on the basis of the experience of the Westside Coalition of Chicago which has fought the systematic exploitation and destruction of Chicago's Westside neighborhoods, won many battles through demonstrations, pressure, court action, any means we can find. We have fought many fires but we need your help and the backing of the federal government if we are to stop the conspiracy which systematically exploits and destroys our neighborhoods.

I am here today to testify before the Subcommittee on a specific case of conspiracy, the outright murder of our neighborhoods in Chicago, aided and abetted by the Federal Housing Administration, the mortgage industry, the insurance industry, and the unscrupulous real estate industry. These four institutions are working together to systematically destroy what is left of America's cities. What for so long have been considered natural phenomena-changing neighborhoods, deteriorating cities—are not natural. It's an outright plan, and the government, the realtors and the big-money people are making a lot of money out of changing neighborhoods, out of the communities we call "HOME".

The blacks, the browns, and the whites in Chicago are sick and tired of the conditions which exist in our cities today, and our anger is mounting. We have experienced great decay in our housing and an equally great influx of abandonment. Disclosures of fraud and conspiracy are staring us in the face. Our inner city neighborhoods are ringed by suburbia where "indifference" to the city dweller is an every day word and "Keep the minorities out" is a way of life. We are all being manipulated by every fast-buck artist in the business, starting with the Federal Home Loan Bank—and ending with the sadistic panic peddler.

The government of our country during its War on Poverty has ignored the edge of the ghetto and concentrated instead on feeding its dying center. Yet, this center keeps widening and the edge becomes thinner and will soon disappear if the conspiracy is not stopped.

The conspiracy works like this. The first stage could be called the "red-lining" process. For some reason banks and savings and loan institutions refused to give home mortgages or even home improvement loans to home owners in our neighborhoods. They say the "risk" is too high. Even when a conventional mortgage was available, our people had to put 50%-60% down (with few exceptions). The same conventional mortgage in the suburbs required only 20%-30% down. This effectively eliminated nearly all conventional money from the inner city and our people were left with no alternatives to purchasing a home, and no way to improve the one they had.

At the same time the money industry was writing us off, the insurance industry came up with "new revelations" for our neighborhoods. Even though many of our home owners have been insured by firms like Allstate and State Farm, not only on their cars but also on their homes for 10 and 20 years, they suddenly found their insurance rates sky-rocketing, and in many cases they were dropped completely. In the same breath these companies wrote off our neighborhoods as a spot for their own investment. They call our neighborhoods "high risk areas" or "riot areas" or "disaster areas". They refuse to issue insurance to people with Spanish surnames. Their agents refuse to fight cancellations or refusals for applicants from our neighborhoods. Insurance agents have testified before this committee documenting that rates on the "Gold Coast" and "North Shore" of Chicago are the lowest, yet the claim rates are highest, and in our changing communities the rates are the highest in the city yet the claims are the lowest. Insurance companies, specifically State Farm, Allstate and the Chicago Motor Club, make it cost more to live in a changing area.

What that "red-line" is really saying is "sell, move out; your neighborhood is going down the drain; blacks and Latinos are moving in and its going to cost you more to stay." The red-lining policies of the banking and insurance industry cost the minority groups more to be what they are. These industries are underwriting panic and change. And when speaking of conspiracy, isn't it strange to find out that this nation's leading insurance companies are the big money behind mortgage houses, like Advance Mortgage of Detroit and Mortgage Associates of Milwaukee who are making a mint from changing neighborhoods.

So the red-line was drawn, and this line, to the surprise of many people, preceded color change. Yet, the big money people had an insight unlike that of our people. They saw that by working together they could hasten change, for change means panic, and panic means money.

So the people began to move. And the neighborhood real estate agents left with them, leaving their once prosperous neighborhood to the block-buster and panic peddler who delight in raping communities for a fast buck and who ply

on the streets of the ghetto recruiting blacks and browns for the new slum-fated area. Panic peddling is big business. With the banking and insurance industries laying the ground work, the panic peddler can change a neighborhood fast. These parasites have different listings for different people—minority groups are shown houses in certain areas only, and whites are shown a different area. They move into the new “red-lined” area at the edge of the ghetto, the so-called “forgotten white neighborhood”, and promote fear and racial prejudice among the owners at far below the true value by playing on racial prejudices. The speculator buys it himself, then sells off the homes quickly to real estate firms for a small profit or to Blacks or Spanish at double or triple his cost.

But up until five years ago when the realtor was faced with selling a home to a Black or Brown, he ran into problems. Minorities could not afford to buy a home. They couldn't come up with the down payment. Even if they could no bank in Chicago would give them a mortgage for their “red-line” was already drawn. Also, five years ago the Federal Housing Administration was solely concentrating in suburbia. “Build for the new middle-class” was their motto. FHA also refused to give minorities mortgages anywhere. The only recourse a family in Chicago was left with was the contract sale where a family could buy with a low down payment, but ended up paying exorbitant interest rates and high monthly payments and would never see clear title to the home for thirty years or more.

Then in 1967, Chicago experienced the riots. Better housing, the minorities demanded, and FHA came to the rescue. Although FHA opened up the market for low-money-down government backed loans, it also opened up the market for the wheeler-dealer-fast buck artist using FHA as its tool of trade. And quite suspiciously, the only areas where FHA loans were available were the same areas where no conventional money was available and where the insurance rates were the highest.

Either by design or lack of insight, FHA is the largest force in the change and destruction of the neighborhoods of Chicago. It destroys free choice of housing for minority groups and is the tool of the unethical real estate broker. When the realtor has panicked a whole neighborhood and is ready to sell to Blacks or Browns he goes to FHA. FHA employs fee-appraisers who are most often real estate brokers. Sometimes he is the brother or the friend of the broker who is handling the house and code violations such as bad boilers and faulty plumbing are conveniently overlooked in the appraisal. Collusion between the FHA and the real estate industry continues at the cost of financial burdens to a family that is just trying to get on its feet.

The end result is that the buyers are left with a federally insured home containing thousands of dollars in needed repairs with which they are unable to contend. The home becomes abandoned, the mortgage is bought up by the mortgage house and paid off by the government.

On the other side of the FHA coin is the point system. Points are a percentage of the cost of the building charged to the seller. In our red-lined areas of Chicago points vary from 5%–15%, usually leaning toward the higher figure. The money the seller pays goes directly to the mortgage house. The basic logic of the points was to help make up for the lower interest rate of an FHA mortgage. So, it costs more to the seller to sell to someone who is buying on FHA. If one has a choice as to whether he is going to sell FHA or conventional, he will sell conventionally because it costs him less. A person living in the suburbs who wants to sell will sell with conventional money (30% down). A member of a minority group or low income person wants to use FHA (5%–10% down) but the seller doesn't want to pay the points, so he'll only sell conventionally. This effectively eliminates the minority/low income people from buying in areas where conventional mortgages are available. The result—no open housing. The minority/low income group who wants to buy a house is trapped. The realtor will only show him houses in the “red-lined” area where conventional money is not available and this is where he is forced to buy.

As this “red-line” is moving toward the iron ring around suburbia, Chicago is being systematically wiped out.

The mortgage, real estate and insurance industries, in collusion with FHA, are making mounds of money from the rapid change in neighborhoods.

The same forces are destroying neighborhoods in St. Louis, Detroit, Philadelphia, and many other cities. With me today are representatives of the communities subject to this conspiracy. We of the National People's Caucus are angry and determined, angry about the economic and social destruction and blatantly illegal activity; determined to organize local communities, regional caucuses, and a national movement to put the power and resources into the hands of groups which will improve our neighborhoods, not destroy them.

We need this committee's help to uncover the conspiracy. The testimony you have heard on Boston, the evidence you are uncovering on New York this week—all points to the same conclusion—it's not natural for our cities to flourish, then to decay. Because of outside forces, whites believe that they have been driven from their homes at a great loss by the blacks and browns. The minorities in turn believe that all the injustices they have gained are due to the fault of the whites, and both of the victims are reduced to blaming one another. The cause is not racial, it lies in the conspiracy, and to this we and you must continue to address ourselves.

Senator HART. We will be pleased now to hear from each of the areas that are represented here.

STATEMENT OF MRS. GLORIA LOPEZ McKNIGHT, PRESIDENT, LATIN AMERICAN COORDINATING COUNCIL, INC.

Mrs. McKNIGHT. I will be addressing my testimony to you as the body president regarding the chicano situation in the United States in regard to housing.

The housing situation in the latino dwellings around the country does not square with the civil rights legislation and the fair housing legislation which your honorable body has made the law of the land.

The residents of the latino areas in Detroit, having been forced three times since 1957, have decided to take a stand. They refused to be moved again. The Hubbard community, as this area is known in Detroit, has developed with urban design groupings, a plan to retain the residential character and would confine the industrial uses to those areas immediately adjacent to the one major thoroughfare, which runs across the area's southern boundary.

This plan would require an amendment to the present city of Detroit's master plan, which indicates that this area is to be redeveloped along light and heavy industrial uses. The city and its departments have been really unresponsive to the desire of the body of residents and have taken no initiative to see that the Hubbard-Shaw plan is amended into the Detroit master plan. Due to the lack of communication between the city and the latino residents and the lack of sophistication of the residents, the political power necessary to bring this plan to fruition has not developed.

Another possible reason for the city's attitude regarding the plan is that the area is immediately north of the Ambassador Bridge and is a prime location for trucking companies and related industrial uses due to its proximity to this transportation link with Canada and its nearness to the Detroit harbor terminals, which are located downriver from this area. Development of the land along industrial lines would also provide the city with a higher tax base, and they would rather have this than the residential use.

The residents, on the other hand, see their area at the foot of the Ambassador Bridge being developed as a multieffort with parks, boulevards, ethnic shops and restaurants being built along their main thoroughfares, creating much more favorable impressions on people entering the United States from the bridge, than would an industrial area. This plan would also provide the city with additional revenue.

They also envision the construction of single-family homes and two- and three-story townhouses, whose architecture will reflect the ethnic backgrounds. Here we have a classic example of people with a desire and a plan to provide for themselves, while the city attempts only to provide for itself as a corporate body.

I have omitted any reference to the FHA housing scandal in Detroit, as I understand from Don Ball of the Detroit News that he has sent documentation of the material and the situation which he discovered to exist within the FHA framework in Detroit to the appropriate governmental bodies. I do not think it is necessary to elaborate further on this matter.

The chicanos of Chicago held an investigation over a period of 8 short months and have exposed the injustices, the injustices levied against Latin homeowners that trusted in FHA financing. They have to date documented 22 cases wherein unscrupulous real estate brokers and their agents have sold homes to Latinos under articles 203 or 221, homes riddled with defects that violated HUD directives, as well as city building codes.

These realtors, they smooth-talk our people to believe these homes are in good condition. Our investigation reveals all methods of deception. The tenants do not wish to be disturbed by prospective buyers, refusal to show the house the second and third time before purchase, assurance that legal counsel is not necessary at closing of the deal, providing of lawyer friends or agents to do the job cheap; contracts are written only in English and not explained fully to the Latino buyer.

Such deceptions insult enough. But consider the defects and violations found in this newly purchased home. There documentation has revealed every major type of defect and city code violation.

There is insufficient means of redress, illegally added apartments, inadequate stairway enclosures, defective foundations, entire electrical systems in violation of the city code, defective heating systems, warped floors caused by leaking sinks, illegal basement apartments, porches with rotting wood. These are but a few examples of the type of homes our families have without, in the last few years in Chicago, having any redress for.

Daily more cases are brought to our attention. This investigation of 22 Latin families reveals a sum of \$33,799 spent in repairs of major defects, and a mild estimate of \$33,314 of repairs yet to be done, and expenditures range from \$100 to \$1,500 per family.

We feel that the Latino has very little economic resource to incur or spend such exorbitant amounts of money in repairing newly purchased homes, and has often been forced to take money out of his family's food budget.

For the most part, the Housing and Urban Development Department relies on the Census Bureau for its housing data. The classic case of the blind leading the blind, since the census investigators are interested in little more than the plumbing, not the quality, but the amount of it, whether or not hot and cold water, toilets are available.

There is no special place on the census form to acknowledge the toilet that overflows or the sink that leaks through the ceilings. They count the number of people per room, but ignore the size of the room.

Preliminary census figures estimate a minority population totaling over 15 percent of our 200 million Americans. This is likely to be a serious undercount, because the 1970 census has special deficiencies and was insensitive to minority situations.

One of the short forms sent to 80 percent of the population asks people to classify themselves as white, Negro, black-American, Indian, Japanese, Chinese, Filipino, Hawaiian, Korean, and other. There were no special categories for either Puerto Ricans or chicanos, even though

these minority groups are larger than many other minorities, on the short form list.

Puerto Ricans and chicanos who checked "other" had, in this response, changed to white at the Census Bureau for the official figures. Only 5 percent of the population received the long form which included country of descent—that is, for instance, Mexico, Puerto Rico, Cuba, et cetera—as an item to be filled out. And yet, these figures will be utilized for all types of housing planning and development until the 1980 census is taken.

The Coalition of Spanish National People's Action on Housing has made the following recommendations:

1. That Senate bill 3439 by Adlai Stevenson now in committee be moved quickly to the floor; that H.R. 9688 be quickly moved to the House floor.

These bills authorize FHA to reimburse people who have had to spend money to fix up their house under FHA.

2. That the emergency funds be provided immediately to repair houses so that our community will not become a slum.

3. That the unsatisfactory risk determination, FHA regulation part 200, subpart 8, be immediately enforced; thus all realtors involved in selling FHA guaranteed homes having code violations will pay for all repairs needed to bring the homes up to standards.

The unsatisfactory risk determination states that the director of a field office has the authority to reject an application for mortgage insurance from any participant in the mortgage section on the grounds of unsound credit or unsatisfactory past experience.

4. That HUD provide housing service immediately to the Latino communities of this Nation. All Latino houses must be bilingual and bicultural.

5. That FHA-HUD bring its total number of Latinos into parity with the total Latino population in the United States so that metropolitan areas, the Spanish-speaking community can be represented by someone who is sensitive to our needs. Such Latino employees must be placed at all levels of employment, to include decisionmaking and policymaking positions.

6. That President Nixon and Secretary Romney take immediate and affirmative action to lift the employment freeze current in FHA and HUD offices in favor of points 4 and 5 above.

7. That FHA-HUD allocate money for rent supplements for any Latino family who wants to move back into buildings that were built or rehabilitated with FHA and HUD money, and that the sums be increased to 40 percent nationally, and this be mandatory to all buildings built or rehabilitated with HUD money; that in urban renewal projects or projects where Federal moneys are used, the local community should have ultimate control of the total project, redevelopment of housing; and also the community should have first priority on employment when construction of the project is started.

The general contractor should be committed to his community in his affirmative action plan.

The others, up to 12, are included in the testimony that you have before you. I am not an authority on housing or urban planning, but I do hope that you, as our elected representatives, will take affirmative action on these problem areas presented before you today.

The Government has the experts in these areas to assist in the resolution of the housing problem that presently exists.

I do want to emphasize that the Latino communities of the United States will be watching the course of action you take in response to what you have heard today.

Thank you.

(Applause.)

(The full prepared statement of Mrs. McKnight follows. Testimony resumes on p. 17).

TESTIMONY BY GLORIA LOPEZ MCKNIGHT OF THE LATIN AMERICAN COORDINATING COUNCIL, INC., DETROIT, MICH.

The time is long overdue for this nation to rearrange its priorities and address itself to human needs. Specifically, the traumatic situation presently existant in the area of housing and housing needs must be resolved. Billions of dollars are being allocated and wasted on farm subsidies, supersonic transports, trips to the moon, anti-ballistic missiles and the Vietnam War while the majority of the people of this country do not have adequate and decent housing conditions.

The United States has become so indulgent in the margin of profit and materialism that the human being has lost his identity and is utilized only for statistical purposes. The value of the human being has ceased and he is now computerized and the victim of a technological society.

If it is conceivable for our society to begin a kind of a renewal, a rebirth, seeking honesty and truth and a new humanism which will result in a re-recognition of the worth of the individual, this Administration must commit itself to the housing needs of the poor, the minorities, and the lower middle class in order to demonstrate the relevance of our democratic form of government to these people who feel so very disfranchised.

At the recent "Mexican American Housing Patterns" Conference sponsored by the Department of Housing and Urban Development (HUD), (October 15-17, 1971, at Albuquerque, New Mexico) barrio participants voiced some of their concerns regarding housing. The insensitivity of the government and its agencies to the feelings and attitudes of this minority, and the government's (bureaucracy's) habit of looking at them as mere objects of federal policies, has much to do with the perpetuation or alleviation of current problems in federally-funded programs directed at minority communities.

The research data gathered at this conference, by the Institute for Personal Effectiveness in Children, details some of the housing concerns of the residents of the following respective cities.

Albuquerque at present faces despair over the network of expenses, unfulfilled needs and misunderstandings of regulations, systems and bureaucracies. People want to be homeowners, but find themselves frustrated by their lack of knowledge and power, or their inability to qualify. So, they continue to rent, and know that they are paying too much, living in inadequate housing at the mercy of slum landlords. High interest rates and the frustration of long-term financing limits the accessibility to adequate low-cost housing. Present homeowners tend to see themselves as their greatest resource in improving their living standards. But, in order to use their resources to repair and improve their property, some of the present restrictions, such as the mandatory use of licensed contractors, must be lifted or amended.

Denver is concerned with the use of low-grade materials and workmanship in construction of homes for the poor under current housing programs such as 235. Realtors, working hand-in-hand with government bureaucrats, exploit the people. At first, the realtors used the plan to sell older homes that were in disrepair. Following a recent investigation of 235, realtors have begun to market newer homes "just as poorly built or worse than the older homes". The government should set higher building standards, so that homes sold under 235 may be guaranteed to last twenty to thirty years. High-rise apartments constructed through urban-renewal projects charge exorbitant rents, making them unavailable for the poor people they displace. The 235 plan does not allow residents enough choices in plans and decor, or advise the buyer as to additional costs; a person can soon become a "slave to his house" as things stand.

El Paso's Chicano community sees itself as one of real poverty. The poor of El Paso are among the most impoverished in the United States. The residents share the feeling that the government will not assist their city due to the large economically-deprived and poverty-stricken population. The people feel that they possess the attributes, skills, and pride necessary to change conditions as they presently exist. A great interest in self-help type projects has been expressed. The federal government should initiate more programs to help people and their communities, with emphasis on community control of these programs. The people are interested in employment, and not welfare.

Fresno places great emphasis on the fact that state and local agencies do not disseminate information on current programs in the Mexican-American communities. "The government never bothers with us, we don't know what to do or where to go to obtain a loan to improve our houses." Most Mexican-Americans feel that they should push hard to get into positions where they have decision-making powers. This is seen as a vehicle for insuring that Mexican-Americans become knowledgeable of existing housing programs.

The City Planning and FHA offices are highly criticized. By far the greatest criticism of planners is that they do not consult Mexican-Americans when designing their homes and communities. It is further felt that the poorest communities are chosen for Mexican-Americans because their economic isolation does not permit them to get anything better.

Houses should not be built near industry due to greater incidence of air pollution in the area. Big business corporations, contributing to the decay of the environment, should not go unpunished; industrial growth in residential areas should be controlled. As one resident stated, "We don't want much industry in our city, just enough to give us a livelihood, not to pollute our area."

Another concern is the displacement of residents when their houses are condemned without providing them with a better standard of living. Government housing programs should direct private contractors and local housing agencies to hire Mexican-Americans in the construction of their homes.

Training programs should provide Mexican-Americans with the skills to hold supervisory positions in the construction arena. Spanish-speaking instructors should be utilized in order to make the training more effective.

High-rise apartment living is a new concept that residents know nothing about. Houses should be pleasant to look at and should reflect the culture, similar to apartments that "white people live in."

Use of low-grade materials and shoddy workmanship in construction of homes under current housing programs is highly criticized. They look very pretty on the outside, but inside they are very poorly constructed. Strong feelings are expressed for citizen participation in the decision-making process and actual housing production. The lack of space in the home is seen as affecting the educational aspirations of the children. "If there is a family with six or eight children living in a two-bedroom home, how can the children do their homework when there is no privacy?"

Los Angeles' minority residents are beginning to insist on participation both in decision-making on housing programs and in actual housing production. The self-help concept is very strong, and has developed out of the great benefit of owning one's own home rather than renting. Absentee landlords, high rents, etc. are cited and home ownership is touted as being much more economically sound as well as contributing towards a person's self-esteem in this society. Home ownership increases individual and community pride, keeps residents from moving out and fragmenting the community, and is obviously one of the major factors in true economic ascendance.

It is felt that present low-income housing programs tend to concentrate in geographical areas, and that such housing would better be made available in small sections throughout the community. This would aid in economic and racial integration. Low-interest government loans as well as a government subsidizing plan using "home improvement certificates" that could be utilized in purchasing home-improvement materials is suggested as a means whereby low-income families can improve their lot.

Tax reform is another issue cited as an aid to the homeowner. Many people see government monies working effectively in the community through a co-op plan, whereby community improvement funds (for park systems, landscaping, street improvement, etc.) be given to a people's council. Jobs would thus be created for residents, and the sense of participation and cooperation would be effected.

"The housing projects," some say, "are really encouraging poverty." If people who occupy such housing make a bit more money, the rent goes up; consequently, there is no possibility for real improvement on any level. Zoning laws, and changes in zoning, usually favor the wealthy or industry, it is alleged.

Phoenix shares the characteristic of Chicanos to want their own houses and therefore should not be considered for multi-family housing. Housing programs, such as 235, should "be built around a complete counseling program", according to residents who commented on problems of existing government housing programs. Many of the FHA directors do not themselves know the real issues involved in some programs. Data on qualification for 235 homes is misleading, some say, and often leads to bitterness and disillusionment. Of all the programs, self-help was given the most praise as showing possibility. Building costs and the prices of construction are declared exorbitant. It's not feasible to say we can build a four-bedroom home out of block like we could even three years ago" due to the rising costs of material and labor.

San Antonio feels the attitudes of public housing officials toward the people are less than satisfactory. One man stated, "They didn't ask you if you wanted to move in there; they tell you you move in there and that is the only place you can go." Mexican-Americans know little about housing contracts. Many feel that Chicanos are being exploited in San Antonio. They comprise a major segment of the city's population, but are relegated to inferior status. A plaza in the city is cited as a place that was prepared more as a tourist attraction to show off Mexicans than something for the Mexican people themselves to use. The Mexican-American community of San Antonio is described sadly as "decaying". Streets are bad, sanitation is poor, schools are overcrowded. Taxes continue to rise, with no real help in sight. Trash pickups are more frequent and conducted more efficiently in the wealthier sections of San Antonio than in the barrio. Hospitals are not readily accessible and are constructed in areas that make it easy for Anglos, hard for Chicanos to get there.

In planning the "ideal community", residents feel that open lots or spaces should be designated to remain open for future use as parks and play areas, otherwise, if privately owned, the temptation to the owner to sell for building is too great. It is felt that if people own their own homes, the incentive to maintain them is much greater.

San Diego places great stress in the need for Chicanos to continue to strive as a group to break the stereotypes that Anglos have of them and the barriers of discrimination in achieving better living conditions. The people in the community should have the alternative of moving into any neighborhood without fear of discrimination. The Chicano community should be taken into consideration whenever decisions are made regarding neighborhood improvements.

Residents strongly feel that if the government gave Chicanos an opportunity to rebuild their communities there would be more unity among Chicanos through a self-help concept. Programs such as Model Cities should involve the persons directly effected in the decision-making process, but presently do not. More of the money presently spent on executives, salaries, and red tape should be spent on actual rebuilding of our cities.

Many residents feel that planners should make projections on population growth and community services that accurately reflect the needs growing out of cultural variances. One participant commented, "Maybe our city planners don't have any children. They don't design cities for kids." Parents feel the parks are designed for the Anglo consumer. Chicanos are not comfortable in these parks and feel out of place. Activities within these parks are not publicized within the Chicano neighborhoods so that by the time word gets around the events have already transpired.

Chicano participants expressed a strong need for better relations between the community and the schools, the police, and those institutions impinging on the improvement of Chicano communities. "Until you drown out discrimination in those institutions that govern our lives, nothing is going to change. Police protection, that means harassment. We need education to think, not to be programmed."

Comments on housing dealt with racism and the few alternatives available to Chicanos in obtaining better housing. Most participants expressed a strong desire to live in an integrated community. By the same token, the participants recognized that this would be an impossibility given the fact that you cannot design racism out when designing a community. "As long as there are racists living in your block, you are going to have trouble."

Most residents find themselves in a bind—they feel more at ease in a Chicano neighborhood while at the same time striving to move out of it because of the very poor housing conditions. Others that have moved out of a Chicano neighborhood speak of the problems of dealing with racist neighbors. Chicanos cannot afford dream houses, but houses could be designed which are livable and esthetically appealing. As one person puts it: "Chicanos are not used to tacky-tacky homes; they're used to having an individual home and giving their homes an individualistic appearance."

The Chicanos strongly reject a specific project in San Ysidro because, "They look like a bunch of boxes shoved in . . . they put them up fast, they put them up cheap. That is the realistic choice we have." The participants concluded that as long as discrimination in education and employment continues, their chances of ever getting a decent home are very meager.

Detroit: Because Detroit is where I live, I hope you will allow me to discuss our problems there at somewhat greater length. May I begin by acquainting you with the history and migrations of the Latino community within Detroit.

The Latino community began its settlement in Detroit during and shortly after the Mexican Revolution (between 1910-1920). They came to avoid a chaotic, war-time environment in Mexico, discrimination in the Southwest, and also to find jobs. Others came as migrant farmworkers and remained. They originally settled in the oldest part of the city, the area adjacent to the downtown business district, on the east. Longtime residents tell me that this was the only housing available, possibly because of economics. Those who worked in the factories tended to get menial and unskilled labor jobs in the auto plants and the steel mills, primarily located in an industrial area far to the west of the downtown business district.

When the residential area immediately to the west of the downtown business district began to deteriorate, the Latino community moved there because this residential area was closer to their jobs, and had adequate public transportation to the auto plants, thus developing a new Latino community or "barrio".

The Catholic church in this newly-formed west-side community began to relate to the Latino population primarily by providing religious services in Spanish, and by serving the function of intermediary between the needy in the Latino community and the public agencies whose function it was to lend assistance. Mexican grocery stores, bakeries, tortilla factories sprang up, and the local movie house began showing Spanish-language films. The area was old but stable, and the residents of the barrio took pride in their community because they were able to identify it as *theirs*. The barrio existed for perhaps twenty years in this condition.

The first disruption of the Detroit Latino barrio occurred when the John Lodge Expressway was constructed in such a way that the community was dissected in a north-south line. The area east of the expressway deteriorated rapidly, and has since been demolished and turned from a residential to a commercial and industrial use.

The second disruption was brought about under the guise of urban renewal when the western section of the original barrio was classified as the "West Side Industrial Rehabilitation Project #1" in 1957, and property was acquired by the city for demolition and resale to private light industrial users.

These two disruptions resulted in the community's moving out of the affected areas, into the immediately adjacent area to the west. This area was then designated as "West Side Industrial Rehabilitation Project #2" in 1966, and again the process of the city acquiring residential properties, demolishing them, and reselling the vacant parcels to light industrial users continued. There was no provision in either of these plans to replace any of the housing which was being destroyed. The relocation effort for the displaced people was extremely halfhearted, and no effort was made to place them in an area where they would be culturally comfortable. In other words, the Latino barrio was forced to experience a "diaspora" of sorts. This dispersal was counteracted to a certain extent by the Latino community's cultural habit of close kinship ties, and by their habit of using other community members as sources of finding new housing. Again, a movement to the area adjacent on the west.

This area, unfortunately, began to deteriorate due to the obvious encroachment of industrial uses in the two industrial rehabilitation projects. Property values began to slide, and private developers have been moving in and acquiring pieces of land, demolishing the houses, and, we assume, waiting until they have sufficient land parcels to redevelop in conjunction with the present Detroit Master Plan designation for the area—light and heavy industrial.

The residents of the Latino barrio, having been forced to move three times since 1957, has decided to make a stand. They refuse to be moved again. The Hubbard-Richard community, as this area is known in Detroit, has developed, together with Urban Design Development Group, Inc., a plan which would retain the residential character of the barrio, and would confine the industrial uses to those areas immediately adjacent to the one major thoroughfare which runs along the area's southern boundary. This plan would require an amendment to the present City of Detroit Master Plan which indicates that this area is to be redeveloped along light and heavy industrial uses.

The city and its departments have been really unresponsive to the desires of the barrio residents, and have taken no initiative to see that the Hubbard-Richard plan is amended into the Detroit Master Plan. Due to the lack of communication between the city and the barrio residents, and the lack of sophistication of the residents, the political clout necessary to bring this plan to fruition has not yet developed.

Another possible reason for the city's attitude regarding the Hubbard-Richard plan is that the area is immediately north of the Ambassador Bridge, and is a prime location for trucking companies and related industrial uses due to its proximity to this transportation link with Canada, and its nearness to the Detroit Harbor Terminals (port facilities) which are located slightly downriver from the Hubbard-Richard area. Development of the land along industrial lines would so provide the city with a higher tax base than would residential use.

The residents, on the other hand, see their area at the foot of the Ambassador Bridge being developed as a multi-ethnic cultural area, with parks, boulevards, ethnic shops and restaurants, being built along their main thoroughfares, creating much more favorable impressions on people entering the United States from the bridge, than would an industrial area. This plan would also provide the city with additional revenue.

They also envision the construction of single family homes and two-and-three story townhouses whose architecture would reflect the ethnic background of the people living in the community.

Here we have a classic example of people with a desire and a plan to provide for themselves, while the city attempts only to provide for itself as a corporate body.

It should be obvious from the facts I have presented and the situations I have described that the housing situation in the Latino barrios across the country does not square with the Civil Rights legislation and the fair housing legislation which your honorable body has made the law of the land. I have attached to the back of my written testimony an addenda which details some of my conclusions as to why these discrepancies exist. If you would care to, I am available to answer any questions you may have on the addenda.

I have omitted any reference to the FHA housing scandal in Detroit, as I understand from Mr. Don Ball of the *Detroit News* that he has sent documentation of the material and situation which he discovered to exist within the FHA framework in Detroit, to the appropriate governmental body. I don't think it is necessary to elaborate further on this matter, at this time.

I am not an authority on housing or urban planning, but I do hope that you, as our elected representatives, will take affirmative action on the problem areas presented before you today. The government has the experts in these areas to assist in the resolution of the housing problem that presently exists.

I do want to emphasize that the Spanish-speaking community of the United States will be watching the course of action you take in response to what you have heard today.

ADDENDA

There is no way for any one of us to deny the existence of institutional racism and discrimination in this country and the perpetuation of suppression of the poor, and the exploitation of members of the subordinated groups through lower wages, higher prices, higher rents, less desirable credit terms, and poorer working and living conditions. Racism may be viewed as any attitude, action, or institutional structure which subordinates a person or group because of his or their color . . . This is true of Blacks, Puerto Ricans, Chicanos, Japanese Americans, Chinese Americans, and American Indians. Specifically, white racism subordinates members of all these other groups primarily because they are not white in color, even though some are technically considered to be members of the 'white race' and even view themselves as 'whites'. Minority communities feel this is one of the root causes of the housing deficiencies and other problems which face them, at this time.

Responding to a survey, the presidents of twelve Reserve Banks reported that virtually NO members of minorities (here defined as Blacks, Puerto Ricans, Latinos, Chicanos, Orientals, and American Indians) are serving on the Boards of Directors or as senior officers of the leading banks in any of our large cities.

One in every 10 whites lives in poverty, but one in every 3 Blacks lives in poverty, and—in 1970 Black families were not just more likely to be poor . . . They were also poorer than the poor whites. The families of poor whites average \$1000 below the "poverty" line. The families of poor Blacks average \$1300 below the "poverty" line. The "poverty" line is set at \$3968 for a family of four. A total of 25.5 million Americans live in poverty in the United States.

In 1969 white males held 98% of private jobs paying over \$15,000 a year. Women held 1% and non-white males held 1%. In 1969 Blacks totalled 6.8% of membership in the Building Trades Unions. This was a decline from 1968 . . . despite great pressure from minorities to open up more better paying jobs in construction financed by government funds. The building trades show total minority memberships of 13.2% which are: Black, 6.8%, Spanish surname, 5.1%, Oriental, 0.5%, American Indian, 0.7%. However, in the lowest paying general construction trades group, minority membership was 31.8%. These were Black, 20.1%, Spanish surname, 10%, Oriental, 0.5%, and American Indian, 1.2%. In 1969, in the building trades in New York City, the construction trades showed the following percentages:

[In percent]

	Black	Spanish surname
Plumbers-pipefitters.....	1.9	1.7
Electrical workers.....	2.4	1.7
Ironworkers.....	2.4	1.7
Bricklayers.....	1.9	3

The United States Congress Civil Rights Act of April 9, 1866 states, "All Citizens of the United States shall have the same right, in every State and Territory, as is enjoyed by white citizens thereof to inherit, purchase, lease, sell, hold and convey real and personal property." And yet: Zoning laws in many areas prohibit the construction of rental units and multiple family dwellings, and they often demand a certain lot size for each private home constructed. These laws or codes, generally made by white suburbanites, result in de facto discrimination against the poor. Since minorities are enormously over-represented among the poor and lower middle class, these zoning laws in fact discriminate against minorities.

A recent study of newspapers in the Washington, D.C. area showed racism common to papers in most communities: (1) Advertisements for homes or homesites showed drawings or photos of white families; (2) Ads were placed in papers with large white circulation, but not in papers which were Black-owned, or circulated mainly to Blacks; (3) As late as 1970 the following phrases appeared in the ads: white only . . . in white home . . . exclusive neighborhood . . . private neighborhood. Most whites list their houses for sale with white realtors. Most white realtors do not advertise these homes in minority-owned or read newspapers. Very often they have arrangements with other realtors where listings for houses are shared. These sharing arrangements often exclude Black realtors.

There are many fair housing laws in existence. Minority complaints center on the lack of enforcement and the lack of penalties for non-compliance with these laws. Also that government could, but does not, put economic pressure on communities with restrictive zoning.

For the most part, the Housing and Urban Development Department relies upon the Census Bureau for its housing data—a classic case of the blind leading the blind, since the census investigators are also interested in little more than the plumbing: not the quality but just the amount of it—whether or not hot and cold water, toilet, bathtub or shower are available. There's no special place on the census form to acknowledge the toilet that overflows or the sink that leaks through the ceiling. They count the number of people per room, but they ignore the size of the room.

Preliminary Census figures estimate a minority population totaling a little over 15% of our 200 million Americans. This is likely to be a serious under-count because the 1970 Census had structural deficiencies, and was insensitive to minority situations. For example:

(1) The short form, sent to 80% of the population, asked people to classify themselves as White, Negro or Black, American-Indian, Japanese, Chinese, Filipino, Hawaiian, Korean, or Other. There were no special categories for either Puerto Ricans or Mexican-Americans, even though these minority groups are larger than many other minorities on the short-form list (Mexican-Americans form the second largest minority group in the country).

(2) Puerto Ricans and Mexican-Americans who checked "Other" had this response changed to "White" at the Census Bureau for the official figures.

(3) Only 5% of the population received the long form which included country of "descent", i.e., Mexico, Puerto Rico, etc., as an item to be filled out.

And yet, these figures will be utilized for all types of housing planning and development until the 1980 census is taken.

MAJOR FINDINGS OF RESEARCH STUDY

"The Relationship of Mexican-American Living Patterns to Housing Design"

Living Patterns . . . as expressed in . . . Housing

- | | |
|---|---|
| 1. Generosity toward extended-family, immediate community. | 1. Large living room, dining room, kitchen (in conjunction with each other); large number of bedrooms; proximity to relatives. |
| 2. Life-focus on meal preparation, serving. | 2. Large kitchen-eating area. |
| 3. Maintenance of privacy in neighborhood. | 3. Single-family dwelling; large lot and barriers; low density. |
| 4. Maintenance of privacy within house. | 4. Separation of living from sleeping areas. |
| 5. Focus on family unity. | 5. Single-family housing; family gathering area within design (family-room.) |
| 6. Maintenance of child-oriented atmosphere. | 6. Outdoor play-space; separate bedrooms; indoor study and play areas. |
| 7. Reliance on individual resources. | 7. Home ownership; participation in, and support of, self-help housing programs; resentment of welfare-oriented programs. |
| 8. Reliance on resources of immediate (Mexican-American) community. | 8. Membership in community organizations; participation in community groups and indigenous programs; ownership of local businesses. |

Research Study by: Institute for Personal Effectiveness in Children (IPEC), P.O. Box 20233, San Diego, Calif. 92120, (714) 283-7141.

Presented at: HUD Workshop, "Mexican American Housing Patterns", Albuquerque, N. Mex., October 15-17, 1971.

Senator HART. Thank you. It is not important enough to make an issue out of it, but there are those who would agree with me that we need not have applause, which may increase as the day goes on and our time shortens, because there are obligations with respect to time here.

Father, would you like to proceed?

STATEMENT OF REV. RICHARD DODARO, CHAIRMAN, OUR LADY OF THE ANGELS REAL ESTATE COMMITTEE

Reverend DODARO. I would like to introduce myself. I am Father Richard Dodaro, associate pastor of Our Lady of the Angels parish in Chicago. Also, I am chairman of the OLA real estate committee and a member of the Westside Coalition of Chicago.

My information is mostly from my own personal experience in my community and also in the Westside Coalition, but what is true in my area is certainly true elsewhere in Chicago and the rest of the Nation.

I would like to begin my testimony by expressing my appreciation for the opportunity to address this subcommittee this morning. We feel that this is an excellent opportunity for us to present our understanding of the problems facing Chicago and the cities throughout the Nation, particularly the problems of housing and abuses therein. I would also like to clarify the fact that I do not claim to have all the answers to the problems that I will present, nor will I have all the statistics that you might deem necessary.

My presentation will, for the most part, be from the practical angle; that is, the people's view. What is true in my area is mirrored elsewhere in Chicago and across the Nation, but most particularly in the Westside Coalition area.

About 3 years ago, the area known as Our Lady of the Angels parish was a neighborhood made up of predominantly Italian and Polish people flanked on the south by the blacks and on the northeast by the Latino community. This area contained many senior citizens and blue-collar workers, people who have lived here all their lives. These people have either lived in the family home since birth, taking over the responsibility of the home after marriage, or else have bought homes in the area because of the ethnic ties to the church and surrounding community. This community was like many other communities in the Nation.

Suddenly something began to happen and it happened over night. Bombardment of these peoples by phone, fliers, mailings, visits, threats. The real estate industry had shown its first signs of being present. They would call the people and have conversations such as these: "You better sell your home, the blacks and Latinos are coming." Fliers were being put in the mailboxes at the rate of two or three a day, these carrying the message in a most special way. "Meet your new neighbor at such an address," "Don't get caught over a barrel," "We have FHA money for a quick sale." Mailings were the same as the fliers, they also carried the message of doom.

As for visits from real estate men, the doorbell rang and in would walk Johnny Real Estate with the message that the neighborhood was changing and the property value was going down, the message to sell now before it is too late. Many times, they did not use these particular words, but the meaning would be gleaned from their remarks. When these failed to panic the people, threats of violence were used by anonymous callers. Young men and children were employed to break windows and do other damage.

At this time the community began to see a rise in the number of realtors who would hang their shingles in our area. Fifteen years previous to this time there were about 15 neighborhood realtors who had been in the same place for many years before this. About 7 years ago the number began to rise until it hit a high of about 250 realtors.

The scene was set and it was time for the kill. The people knew this was a clearly unnatural thing that was happening, and they were frightened, panicked, and mistrustful of one another.

The real estate industry had successfully identified the blacks and latinos as the enemies and in turn the black and Latino communities, identified the whites as the enemy. This area, as so many other areas,

was now ripe for the industry to come in and sell block by block and turn over this neighborhood. Under the guise of giving the blacks and browns a place to live, they were, in fact, denying these groups free access to housing in the Metropolitan Chicago area.

Senator HART. Would you hold those pictures up?

Reverend DODARO. These show the homes riddled with code violations, and these pictures will substantiate some of those code violations.

Senator HART. If we may, we will receive those for the file.

Reverend DODARO. Thank you.

It costs a lot of money to correct these violations. Many people could not pay. They wished to be homeowners and tried to use the Government program to do this. In trying, they end up hating the whites.

Well, to go on with my statement, they were shown homes in the specially prepared hot area. This type of discrimination was handled in three ways: Double listings, several sets of books were kept, one for black, one for white, and one for browns; color coding, the listings were coded by letter or color; speculation, the realtor himself bought homes in the area, and sold only to blacks, whites, or browns.

Whenever these men were attacked for this block-by-block change, they yelled racism. "We are putting these people into your neighborhood and you do not want them." Yet they employed the three above-mentioned methods of listings. They also prepared the neighborhood in the manner that I described. I am sure that they were not at all aware of the wording of the Civil Rights Act of 1968, which prohibited discrimination in housing. A man may live wherever he can afford to. The real estate industry said, "Yes, we agree, but we deem this area is the only possible area for blacks and browns at this time."

This pressure zone caused much tension between the three groups. The whites left in desperation. They sold their homes at lower prices and paid points because now the banking industry had pulled out of the area and refused to make mortgages in the area. We were designated an FHA area and that because it's the only financing available in the area. Besides selling their homes at lower prices, people also had to pay points, sometimes as high as 18. They were completely at the mercy of the industry. This caused the white community to hate the blacks and Latinos.

On the other hand, the blacks and Latinos bought homes at sometimes twice and three times the worth from speculators. The homes, in many instances, were riddled with code violations. It cost a lot of money to correct these violations, money people could not pay. They wished to be homeowners and tried to use a Government program to help do this, and in turn they end up hating the whites.

Another sad comment about this situation is the fact that these people did not have free access to the city, but rather were placed by the industry in a certain geographical area. Throughout the whole process the catalyst, the real estate men, went free, still yelling that they were only doing what the law asked of them. Just as every group has its shyster used car salemen, the industry has its share.

Among the men who were licensed to sell real estate in Chicago we find Robert Baldi, a convicted murderer; Peter Costello, a convicted safecracker; Elaine Baumgartner, convicted of grand theft by deception. These are many.

Elaine Baumgartner ran a company known as Carmae Real Estate. She was convicted of panic peddling, which is a violation of the city's Fair Housing Act. She lost her license to operate in the city of Chicago.

She was also convicted by the State's attorney's office on 25 counts of grand theft by deception. She took \$147,000 from poor families. Of course, she had to close down her business. A few days prior to her conviction, her husband, John Dice, opened Belltone Realty, but Elaine was the boss. The same personnel were being used and the same tactics.

Belltone employed over 20 salesmen and turned over about 70 buildings a month. Belltone was convicted for panic peddling, and Dice's license was revoked. The same day as the revocation, Robert Jane, son of Elaine, opened Realty U.S.A. The same people were still involved. He used the same tactics as his mother and stepfather. Finally, he was convicted of subterfuge by the city of Chicago.

Presently, both Baumgartner and her son are licensed by the State of Illinois to do business. There are four companies that are in some way or another tied to this whole chain—Craigain Realty, Elaine's brother; Apollo Realty, former employees of Carmae and Belltone; Jane Realty, Robert Jane, son of Elaine; and Firm Mortgage Co., renegotiating contract sales. We find the same personnel throughout these businesses and we wonder about it.

Sky Realty had five offices and 60 salesmen. In one case they had purchased a home from a Mrs. Mildred James for \$2,200 and sold it later for \$19,000. The case was appealed by the two Sky salesmen and the end result was that they both still have their license.

The U.S. attorney had them both indicted for fraud. They received a minimal sentence of 4 years probation and a fine. The newspapers call this a white-collar crime.

It is no coincidence that these realtors moved in on our neighborhood. They had an assist from the insurance companies whose rates skyrocketed, and mortgage houses who refused to make conventional loans.

When we went to Washington to find answers to our problems with HUD, George Romney, Secretary of the Department of Housing and Urban Development, and his staff repeated phrases which he has constantly tossed at the committees. Romney stated before the Committee on Housing and Urban Affairs that there is no problem with the FHA in the Chicago area. We say George Romney and the total HUD and FHA staff are incompetent for these reasons:

1. Homes are being sold in Chicago under the existing 203 program with multiple code violations.

2. New homes are being built under FHA that are substandard.

3. Communities are being resegregated through the blindness of FHA programs.

4. In Chicago, mortgage defaults skyrocketed, 5,000 homes are in default of payment and FHA has acquired 500 through foreclosures, 1,200 others are in various stages of foreclosure.

5. In Detroit, 5,000 homes were repossessed by FHA with the prospect of a ghost town in the near future, since speculation for 1972 puts the number of repossessed homes by FHA up to 23,000.

Black, brown, and white are being manipulated by people who are making a fortune from fear and despair and, what is worse, our own Government seems to be assisting the speculator in the community. The abuse of FHA has become the syphilis infecting our society.

Mortgage houses aline themselves with the program by withdrawing conventional loans from areas which are changing, and insurance companies follow suit by redlining these areas, determining them as high risk, thereby withdrawing their policies and jacking up the rates.

FHA falls right in line by mothering these policies through granting loans in the areas determined by realtors. This is going to stop. We don't want our cities planned by people who are out to make a fast buck.

People are tired of being talked to and are demanding to be heard. We are coming together to talk about national problems and national solutions. Wise public officials had better be prepared to listen. We are the survivors who are tired of seeing the cities collapse around them and who feel that there is hope for the cities and that this hope lies in the hands of the people.

Senator HART. Thank you, Father.

Mrs. CINCOTTA. Next, I would like to call on Mr. Walter S. Brooks, president, Northeast Community Organization of Baltimore, Md.

STATEMENT OF WALTER S. BROOKS, PRESIDENT, NORTHEAST COMMUNITY ORGANIZATION

Mr. BROOKS. I would like to describe the process by which the dual housing market has victimized both the white and the black residents of northeast Baltimore. The dual housing market is just that, two housing markets, one for whites, and one for blacks, separate and unequal.

The dual housing market begins with racial steering. Whites are steered to homes in safe neighborhoods, as far from blacks as their dollar will carry them. Blacks are steered only to already black or changing neighborhoods. In virtually all-white communities in the NECO area, and in Baltimore county, close to 100 percent of the homes that are listed by realtors who are members of the Multiple Listing Service are shown white clients. The real estate transactions are from white seller to white buyer. This is steering by the real estate industry. See exhibit A—Baltimore County Profile.

In the racially-mixed communities in the NECO area, better than 90 percent of the homes that are listed by realtors who are members of the Multiple Listing Service are shown only to black clients. These real estate transactions are from white seller to black buyer. This is steering by the real estate industry. See exhibit B—Steering in Chinquapin Park and Glen Oaks-New Ramblewood.

As a result of this steering which creates a restricted housing market for blacks, investors and speculators are then able to invade a community and completely control its racial composition.

The real estate industry defends this practice by saying that this is where their clients really want to live, and there is nothing they can do about it. This is a false assertion. Granted, there are many preju-

diced people who will not buy a home near a person of another race, still there are many people who have overcome or are overcoming their prejudices to the point where they are willing to live in an integrated neighborhood, particularly, if they can find good property at a reasonable price.

FAH also contributes to steering and the dual housing market. FHA permits the seller of a home to refuse acceptance of FHA-insured mortgage loans for the buyer. The seller is encouraged to accept conventional mortgage financing only from the buyer.

This is the new code word for "whites only" in all-white communities. For example, in the 1st quarter of 1972, out of 280 property transfers in the all-white suburban area of the 9th Election District in Baltimore County, only two had FHA-insured financing. The other 278 homes were sold conventional; yet, in the racially changing neighborhood of northeast Baltimore, at least 75 percent of the property transfers had FHA-insured mortgage financing during the 1st quarter of this year.

If the real estate industry could be forced to abandon the practice of steering their clients into racially segregated neighborhoods, there would be a much better chance of real integration in our metropolitan housing areas. Under present practices, however, the evils of segregation are encouraged and perpetuated by members of the real estate industry. All people, white and black are hurt. This leads me to my second point—the exploitation of whites by speculators.

Because there is such a strong system of segregation in housing in Baltimore, because racial steering in the sale of homes has so far made integrated neighborhoods an all but impossible dream, the stage is set for the exploitation of white families from the day the first black family moves into an area.

The natural fears that the whites have, that their neighborhoods will soon become an all-black area, makes them ideal prey for real estate men who are concerned only with high profit and quick turnover. All kinds of panic-peddling tactics and hard-sell solicitation are used to convince the white homeowner that he had better sell now, or he will soon lose his entire investment. When he tries to sell, he finds that his real estate agent is unable or unwilling to find him a buyer. It appears that the agent has no access to the black housing market, and furthermore wants none; he is too busy selling homes in all-white areas.

At the same time he is unwilling to show any of his white clients a home in a changing neighborhood. So, the family waits and waits for a buyer, and finds none. The potential seller is now ripe for the speculator. The speculator is their true friend in distress, who is willing to take the house off their hands for only a few thousand dollars less than it is worth; \$2,000, \$3,000, even \$5,000 of the homeowner's hard-earned savings are wrested from him by the speculator because no one is able or willing to bring him a family willing to buy his house.

We submit, this is exploitation of the white seller. The injustice of this exploitation is compounded by the fact that the victims are often well along in years, and ill prepared economically to sustain such a financial loss and still face the challenge of finding and affording housing elsewhere. This is an injustice that should be stopped. But this is not the only form of exploitation.

My third point is concerned with the exploitation of black people. The speculator here is not content to have victimized the white seller. His next victim is the black renter who moves into a changing neighborhood. On three streets in one northeast Baltimore neighborhood, 41 different investors own property. This community went from 37.7 percent renter-occupied in 1960 to 61 percent renter-occupied in 1970. Overcrowding rose from 7.3 percent to 17.8 percent over the same period. City services declined. Public institutions pulled out of the neighborhood. Because of the dual housing market this neighborhood is now 88-percent black. This is the kind of community the speculator offers his black clients.

The speculator also exploits the black homebuyer. Blacks pay more for comparable housing than do whites. This is how it works:

(1) A speculator buys a house in a changing neighborhood for \$6,500.

(2) The speculator then sells the house to a black family for \$13,000.

(3) The speculator, interested in cashing out on the sale with a \$2,000 profit, takes the black family to a savings and loan company which gives the family a mortgage for \$8,500. The speculator gets his money plus \$2,000.

(4) But there is still \$4,500 remaining to be paid. The speculator has the family sign a second mortgage to him for that amount. This is referred to by critics as the "black tax."

(5) After several years, when the family already has paid back some money on the first mortgage, the speculator takes the family to another friendly savings and loan company that refinances the house. The new loan pays off the first mortgage to the original savings and loan, as well as the second mortgage to the speculator.

(6) The family starts all over again paying the refinancing, including new settlement costs. See Exhibit C—Real Estate Transactions on East 31st Street.

Both the white family, who has lost their home and most of their savings, and the black family, who find themselves heavily in debt for a house worth far less than the price they were forced to pay, are understandably bitter. Unfortunately, they do not realize that they both have been victims of the same set of real estate practices. Rather, each sees the other as the culprit in the transaction. Whites believe that they have been driven from their homes at a substantial loss because of the blacks. Blacks, in turn, believe that the injustice they have suffered is just another sign of the oppression of the black man by the white community. And so victims wind up blaming each other.

The whites are confirmed in their prejudices instead of liberated from them; the blacks are taught once more to expect no justice from white men. Racial tensions rise higher and higher as the whites and the blacks are left hanging on pegs on opposite walls by the real estate industry.

With the creation of the National People's Caucus, we will no longer allow ourselves to be divided, frightened, and pitted against one another. We have joined together to attack the real enemies of our neighborhoods: The unscrupulous realtor, the exploitative speculator, the discriminatory lending and insurance institutions, the unjust FHA, and the hidden, but all-powerful, Federal banking institutions.

So we would recommend, in addition to all the recommendations that are put forward here this morning, that this committee must deal with these real estate practices, and, in addition, also with Mr. Romney's Project Selection Criteria, which is detrimental to the community. [Applause.]

Senator HART. That is a rather dramatic set of exhibits that you have on your statement. Your exhibit C which identifies a score of transactions occurring sometimes within the same month, where the increase in selling price is substantial.

Mrs. CINCOTTA. Next, we would like to hear from Mrs. Carmel McCrudden, chairman, Concerned 221(d)(2) Homeowners of Philadelphia. (Testimony resumes on p. 27.)

THE DISCRIMINATORY AND EXPLOITATIVE AFFECTS OF THE DUAL HOUSING MARKET

(Northeast Community Organization, Baltimore, Md., Walter S. Brooks, President)

I would like to describe the process by which the dual housing market has victimized both the White and the Black residents of Northeast Baltimore. The dual housing market is just that—two housing markets, one for Whites, and one for Blacks—separate and unequal!

The dual housing market begins with racial steering. Whites are "steered" to homes in "safe" neighborhoods as far from Blacks as their dollar will carry them. Blacks are "steered" only to already Black or changing neighborhoods.

In virtually all-White communities in the NECO area, and in Baltimore County, close to 100% of the homes that are listed by realtors who are members of the Multiple Listing Service are shown White clients. The real estate transactions are from White seller to White buyer.—THIS IS STEERING BY THE REAL ESTATE INDUSTRY! (See Exhibit A—Baltimore County Profile)

In the racially mixed communities in the NECO area, better than 90% of the homes that are listed by realtors who are members of the Multiple Listing Service are shown only to Black clients. These real estate transactions are from White seller to Black buyer. THIS IS STEERING BY THE REAL ESTATE INDUSTRY! (See Exhibit B—Steering in Chinquapin Park and Glen Oaks—New Ramblewood)

As a result of this steering which creates a restricted housing market for Blacks, investors and speculators are then able to invade a community and completely control its racial composition.

The real estate industry defends this practice by saying that this is where their clients really want to live, and there is nothing they can do about it. This is a false assertion. Granted, there are many prejudiced people who will not buy a home near a person of another race, still there are many people who have overcome or are overcoming their prejudices to the point where they are willing to live in an integrated neighborhood, particularly, if they can find good property at a reasonable price.

FHA also contributes to steering and the dual housing market. FHA permits the seller of a home to refuse acceptance of FHA-insured mortgage loans for the buyer. The seller is encouraged to accept conventional mortgage financing only from the buyer. This is the new code word for "Whites only" in all-White communities. For example, in the 1st quarter of 1972 out of 280 property transfers in the all-White suburban area of the 9th Election District in Baltimore County, only 2 had FHA-insured financing. The other 278 homes were sold conventional yet, in the racially changing neighborhood of Northeast Baltimore at least 75% of the property transfers had FHA insured mortgage financing during the 1st quarter of this year.

If the real estate industry could be forced to abandon the practice of steering their clients into racially segregated neighborhoods, there would be a much better chance of real integration in our metropolitan housing areas. Under present practices, however, the evils of segregation are encouraged and perpetuated by members of the real estate industry. All people, White, and Black are hurt. This leads me to my second point—the exploitation of Whites by speculators.

SPECULATION

Because there is such a strong system of segregation in housing in Baltimore, because racial steering in the sale of homes has so far made integrated neighborhoods an all but impossible dream, the stage is set for the exploitation of White families from the day the first Black family moves into an area. The natural fears that the Whites have, that their neighborhoods will soon become an all Black area, makes them ideal prey for real estate men who are concerned only with high profit and quick turnover. All kinds of panic peddling tactics and hard sell solicitation are used to convince the White homeowner that he had better sell now, or he will soon lose his entire investment.

When he tries to sell, he finds that his real estate agent is unable or unwilling to find him a buyer. It appears that the agent has no access to the Black housing market, and furthermore wants none: He is too busy selling homes in all-White areas. At the same time, he is unwilling to show any of his White clients a home in a changing neighborhood. So, the family waits and waits for a buyer, and finds none. The potential seller is now ripe for the speculator. The speculator is their true friend in distress, who is willing to take the house off their hands for only a few thousand dollars less than it is worth. Two, three, even five thousand dollars of the homeowners hard earned savings are wrested from him by the speculator because no one is able or willing to bring him a family willing to buy his house.

We submit this is exploitation of the White seller. The injustice of this exploitation is compounded by the fact that the victims are often well along in years, and ill-prepared economically to sustain such a financial loss and still face the challenge of finding and affording housing elsewhere. This is an injustice that should be stopped. But this is not the only form of exploitation. My third point is concerned with the exploitation of black people.

HOUSING EXPLOITATION

The speculator here is not content to have victimized the White seller. His next victim is the *Black renter* who moves into a changing neighborhood. On three streets in one Northeast Baltimore neighborhood forty-one (41) different investors own property. This community went from 37.7% renter-occupied in 1960 to 61% renter-occupied in 1970. Overcrowding rose from 7.3% to 17.8% over the same period. City services declined and public institutions pulled out of the neighborhood. Because of the dual housing market this neighborhood is now 88% Black. This is the kind of community the speculator offers his Black Clients!

The speculator also exploits the Black homebuyer. Blacks pay more for comparable housing than do Whites—this is now it works:

1. A "speculator" buys a house in a "changing neighborhood" for \$6500.
2. The "speculator", then sells the house to a Black family for \$13,000.
3. The "speculator", interested in "cashing out" on the sale with a \$2,000 profit, takes the Black family to a savings and loan company which gives the family a mortgage for \$8,500. The speculator gets his money plus \$2,000.
4. But there is still \$4,500 remaining to be paid. The "speculator" has the family sign a second mortgage—to him—for that amount. This is referred to by critics as the "Black Tax."
5. After several years, when the family already has paid back some money on the first mortgage, the speculator takes the family to another friendly savings and loan company that "re-finances" the house. The new loan pays off the first mortgage to the original savings and loan as well as the second mortgage to the "speculator".
6. The family starts all over again paying the "re-financing", including new settlement costs. (See Exhibit C—Real Estate Transactions on E. 31st St.).

Both the White family who has lost their home and most of their savings, and the Black family, who find themselves heavily in debt for a house worth far less than the price they were forced to pay are understandably bitter.

Unfortunately, they do not realize that they both have been victims of the same set of real estate practices. Rather, each sees the other as the culprit in the transaction. Whites believe that they have been driven from their homes at a substantial loss because of the Blacks. Blacks, in turn, believe that the injustice they have suffered is just another sign of the oppression of the Black man by the White community. And so victims wind up blaming each other. The Whites are confirmed in

their prejudices instead of liberated from them; the Blacks are taught once more to expect no justice from White man. Racial tensions rise higher and higher as the Whites and the Blacks, left hanging on pegs on opposite walls by the real estate industry.

With the creation of the National People's Caucus we will no longer allow ourselves to be divided, frightened, and pitted against one another. We have joined together to attack the real enemies of our neighborhoods: the unscrupulous realtor, the exploitative speculator, the discriminatory lending and insurance institutions, the unjust FHA, and the hidden, but all-powerful federal banking institutions.

EXHIBIT A

BALTIMORE COUNTY PROFILE

Area bounded by Joppa Road, Loch Raven Blvd., Goucher Blvd. and Prince Rd.

1970 census figures

White	Black
2,184	0
1,426	
1,678	
<hr/> 5,288	

ESTIMATED AVERAGE COST OF HOMES

Loch Raven Village

Low Range: 19,950—G. R.: 120; Medium Range: 23,500—G. R.: 150; High Range: 25,250—G. R.: 150.

Estimated Average: 22,900.

Rogers Forge

Low Range: 23,000—G. R. 90; Medium Range: 24,950—G. R. 150; High Range: 25,750—G. R. 150.

Estimated Average: 24,540.

Glen Oaks

Low Range: 10,950—G. R.: 96; Medium Range: 12,900—G. R.: 96; High Range: 15,900—G. R. 96.

Estimated Average: 13,250.

Chinquapin (Baltimore City, Tour Stop I)

Low Range: 10,000—G. R. 96; Medium Range: 12,950—G. R. 96; High Range: 14,200—G. R. 96.

Estimated Average: 12,380

EXHIBIT B

ISSUE: STEERING IN CHINQUAPIN PARK

139 Homes Sold Between 1968-1971. Total number of homes—342 (Between 1968-1971—41% of homes were sold).

31 White (14 of these sold by neighbors)—23%; 106 Black—76%; 1 Bi-racial; 1 Oriental.

Reverdy Road—129 Homes Sold

44 Homes Sold Between 1968-1971; 35 Homes Sold Black (3 of these by neighbors); 9 Sold White; 5 of 9 Sold by Neighbors; 4 Sold by Realtors.

Lenton Avenue—88 Homes

33 Homes Sold Between 1968-1971; 28 Sold Black by Realtor; 4 White (3 of 4 sold by neighbors); 1 Bi-racial.

Marlau Drive—66 Homes

30 Homes Sold Between 1968-1971; 19 Sold Black; 10 Sold White (2 of 10 were sold by neighbors; 4 of 10 were rented by neighbors) (The remaining 4 houses were sold or bought by realtors): 1 Oriental.

Northwood Drive—59 Homes (Belvedere to Northern Pkwy.)

32 Homes Sold Between 1968-1971; 8 Sold White; 24 Sold Black.	
Estimated average price per home.....	\$11,000.00
Estimated average commission per home.....	770.00
Estimated amount of commission paid for 139 homes.....	87,000.00
Estimated amount of commission paid for 139 homes purchased elsewhere.....	87,000.00
Total.....	174,000.00

ISSUE: STEERING IN GLEN OAKS—NEW RAMBLEWOOD

Total Number of Homes—151 (Between 1968-1971 32% of homes were sold).
 48 Homes Sold. 46 Sold White — % Sold White 96%; 2 Sold Black — % Sold Black 4%.

EXHIBIT C

REAL ESTATE TRANSACTIONS ON EAST 31ST STREET

Company	Purchase price	Date	Selling price	
1600 Lee	\$8,200	September 1966	September 1966	\$12,984
1605 Eagle	7,800	April 1966	April 1966	11,950
1607 Lee	6,000	September 1967	August 1968	11,950
1609 Eagle	7,300	February 1966	June 1968	11,950
1611 Lee	6,500	December 1965	June 1966	11,982
1618 Lee	7,300	August 1967	May 1968	13,550
1620 Lee	7,000	June 1967	November 1968	13,550
1631 Eagle	6,200	January 1966	April 1966	12,500
1700 Lee	6,700	June 1966	July 1966	12,950
1701 Lee	8,200	May 1966	do	12,950
1702 Eagle	7,800	August 1966	August 1966	11,950
1705 Lee	7,300	June 1967	July 1967	13,550
1710 Rainbow	4,800	September 1967	October 1967	10,990
1714 Rainbow	5,500	September 1965	September 1965	11,250
1716 Lee	7,700	August 1966	April 1967	13,550
1722 Lee	7,000	September 1967	December 1967	12,550
1724 Rainbow	5,500	September 1965	September 1965	11,950
1726 Lee	5,700	July 1967	June 1968	11,950
1801 Lee	6,000	June 1967	November 1967	11,950
1805 Lee	7,200	do	May 1968	13,550
1807 Lee	5,500	August 1967	July 1968	11,950
1808 Eagle	7,800	August 1966	February 1968	11,950
1809 Rainbow	5,700	December 1967	April 1968	10,990
1811 Lee	5,700	September 1967	June 1968	11,950
1812 Eagle	7,500	July 1965	May 1968	11,950
1816 Eagle	7,800	December 1965	March 1968	11,950
1818 Lee	6,150	September 1965	September 1967	11,950
1819 Lee	6,000	March 1967	November 1968	11,950
1821 Lee	6,150	September 1965	October 1968	11,950
1822 Lee	7,500	August 1966	July 1967	12,950
1824 Lee	7,500	do	March 1968	13,550
1829 Lee	6,100	July 1966	August 1966	12,950
1909 Rainbow	5,000	June 1967	August 1967	10,990
1920 Lee	7,900	August 1966	do	13,550
1924 Eagle	7,400	March 1966	December 1967	11,950
1930 Lee	5,000	April 1968	October 1968	11,950
2031 Rainbow	4,860	July 1967	December 1967	10,990

STATEMENT OF MRS. CARMEL McCRUDDEN, CHAIRMAN, CONCERNED 221(d) (2) HOMEOWNERS OF PHILADELPHIA

Mrs. McCRUDDEN. My name is Carmel McCrudden, and I am a resident of Philadelphia who has been affected very personally by abuses and injustices in FHA's low and moderate income housing programs. I have been affected because these abuses are contributing to the decay of my whole city and, in particular, the immediate neighborhood I live in, in West Philadelphia.

These abuses have been occurring continuously since 1968. There are realtors who are deliberately panic peddling and discriminating in sections as scattered and far apart as Germantown, Kensington, North Philadelphia, South and West Philadelphia.

You can see in almost every neighborhood of the city how the opportunity for quick money and real estate speculation has contributed to the decay of the inner city.

To start, let me concentrate on my own immediate neighborhood of West Philadelphia. I approached a real estate agency by the name of Cella Realty, located at 65th and Lansdowne Avenues. My purpose was to buy a house. He told me he had a house available at 6617 Haddington Street, selling price, \$9,000. He took my husband and me to see the house on one occasion. There were people living in it at the time.

Since the furniture was in place and carpeting on the floor, we did not notice any defects, nor are we licensed plumbers, carpenters, or electricians who would know what to look for. The only thing we noticed was we had sand walls and a dirt floor in the basement.

The real estate agent told us not to worry because the owners would be made to make repairs in the basement in order to receive FHA approval. I believed him. He called us up and told us the basement had been taken care of and that certifications had been issued on the plumbing, roofing, electricity, and woodwork. We bought the house. We made settlement and came directly to the house. Immediately, we noticed the basement had not been cemented and plastered. The real estate man was notified, but he said there was nothing he could do.

I approached FHA and the mortgage company. Each said it was now my responsibility, even though FHA had approved the house. No sooner had we moved in than the Department of Licenses and Inspections came to our house and listed the existing building code violations. To comply with the building code, to date, I have paid \$1,000 for a basement floor and \$270 for electrical work. I still have a \$1,500 plumbing job yet to be done.

Through contacts with newspaper men and community legal services, I found out about hundreds of others who had the same problems. We banded together into a group called the Concerned 221(d)(2) and 235 Homeowners of Philadelphia.

We found out that this situation prevailed throughout the city. There are approximately 650 families who are part of our group, all of whom have experienced the same problems. We are sure we have only scratched the surface.

The daily problems that face all of us homeowners are numerous. As an example, let me tell you about a couple 221(d)(2) homeowners in West Philadelphia. They moved into their house with two children in November 1970. They moved out of an apartment because their oldest child, age 2, was poisoned by lead paint. Their natural response was to find another place to live. They moved into their current dwelling only to find a house filled with lead paint. What does FHA and the city do?

They proceed to prosecute the homeowners who have no money to fix up their house for housing code violations. Obviously, the lead paint was there before they moved in, and obviously, the homeowners were trying desperately to get away from a place that had lead paint in it. Not only do they get punished with a sick child, now they are called criminal by a system that works against them. Our group continues to fight for our inner city despite the odds against us.

For example, a woman, a 235 homeowner currently living in North Philadelphia, has struggled for 2 years to hold onto a dilapidated property. Having lived in a public housing project for years with nine children, she moved under the 235 plan to better herself and improve the environment of her children. Now, 2 years later, she has moved out of her house because it is totally uninhabitable by the city's standards. She's struggling to hold onto her house, maintain an apartment, and feed nine children on a DPA check, while FHA takes its time for repairs on the house. The work is shoddy and slow, and the home, if not fixed soon, will become one more abandoned house in the inner city.

Abandonment, city code violations are only part of the story. Many homeowners stayed in their houses despite unlivable conditions. One woman who at one time thought she was a 235 homeowner and was in fact a 221(d)(2) homeowner, has lived through an entire winter without heat. If she had been under 235, as she thought she was, maybe she could have gotten some relief from the winter cold. As a 235 homeowner, she would have been eligible for 518(b). As a 221(b)(2) homeowner, she had no repair program to turn to. Being on the opposite side of the street from an urban renewal area, she was ineligible for a grant and loan.

Once again, her house was her problem. Her 75-year-old heater was her problem. Her hospitalized children, who got pneumonia, were also her problem. It is a miracle she still lives in the house, but where else could she go with six children?

I talk about this woman's hardships not only to bring you evidence of what we live with but also to show you the crucial distinction between a 235 house and a 221 house; 235 homeowners at least get repairs under section 518(b), passed in Congress in December 1970. They got repairs in responses to all the fraud surrounding the selling of these homes. Where do these 518(b) repairs lead to? A 235 homeowner in South Philadelphia finally found herself eligible for repairs under section 518(b).

Contractors came in after 6 months of redtape only to rip out a ceiling and disappear for an entire month. In the meantime, the homeowner heard new leaks and found herself living with more problems than she started with.

Six months later, the work was still unfinished and the contractor was demanding payment. FHA inspection revealed shoddy, incomplete work, and so the process must begin all over again with the old work having to be redone.

A year later, the homeowner wonders if it is all worth it. She's tired of living in a half-built, torn-apart house. Sometimes she feels she would have been better off with what she started with.

As the concerned 221(d)(2) and 235 homeowners of Philadelphia, we don't want to go backward, back to projects, back to slum apartments. We want to make homeownership work for low-and moderate-income families.

We suggest that for 221(d)(2) houses, FHA accept liability for the properties they sell. They should go after the mortgage companies and real estate industry that deceives a homebuyer.

They should go after the previous owner to fix up the property before it is FHA approved. An FHA approved home, by law, should

be up to city code standards. Funds must be made available for repairs that are needed on the 221(d)(2) homes.

We suggest that for 235 homes, FHA makes good their commitment to pay back homeowners for work that has been done. Also, they should oversee repair work to make sure work is done quickly, completely, and competently.

We are tired of promises that are never kept. We look to you, as our elected representatives, to work with us, not passively against us in our struggle to save our decaying inner city.

Senator HART. Thank you.

Mrs. McCrudden. I would like Mr. George Gould, Community Legal Services of Philadelphia, to respond to that.

STATEMENT OF GEORGE D. GOULD, COMMUNITY LEGAL SERVICES, INC., PHILADELPHIA

Mr. GOULD. My name is George Gould.

Senator HART. Let me interrupt for a moment. All of these statements have been prepared and some of them summarized and will be printed in the record in full.

Mr. GOULD. I am an attorney with Community Legal Services. I am not going to read from my statement that will be presented for the record. I would like to make my presentation very short to give some of the other people in the People's Caucus a chance to speak.

What I would like to say is, our office in Philadelphia, for the last 2 years, has represented over 1,000 local homeowners. Almost all of these problems singularly relate to the failure of the FHA to properly inspect these homes. FHA, under Federal law, is required to make sure that before any house is subsidized or insured, it must comply with the local city housing codes. Not only does FHA not do this in Philadelphia, they refuse to do it and we have taken them to court for that, and the case is pending. More importantly, in Philadelphia, is the massive rate of foreclosures that are occurring.

Secretary Romney has attempted to evade the issue by saying this is caused by the center city environment; that it is caused by lack of responsibility of low-income homeowners; that this is caused by the laws themselves.

We clearly feel, in fact, that Secretary Romney is totally wrong. The programs have failed because of just one reason and that is incompetency and calloused administration by FHA under the leadership of George Romney. He has totally failed to take responsibility.

Two years ago, in 1970, we went down to Washington. We were in the Philadelphia office. And he said there is no problem. Last year, he said there was no problem. Now, he says there is a problem and he said the problem is caused by poor people failing to understand the responsibilities of homeownership. This, we feel, is the most incredible indictment of the whole system in insuring and subsidizing the inner city and Secretary Romney must and has to take the responsibility for these programs.

I cannot blame foreclosures on other issues. The issues are that he has failed and his staff has failed to properly inspect these homes, and homes are being foreclosed because people cannot afford to pay for homes that are literally falling apart.

Thank you, Mr. Chairman.

Senator HART. Thank you.

Your prepared statement will appear in the record at this point.

(The full prepared statement of George D. Gould follows. Testimony resumes on p. 33.)

STATEMENT OF GEORGE D. GOULD, ESQ., COMMUNITY LEGAL SERVICES, INC.,
PHILADELPHIA, PA.

I welcome this opportunity to present a statement as to the housing crisis which presently exists in Philadelphia. Over twenty-three years ago in the optimistic rhetoric of the Housing Act of 1949, Congress committed the nation "to the realization as soon as feasible of the goal of a decent home and a suitable living environment for every American family". Now, twenty-three years later, not only have we failed in reaching this goal, but many of these programs have been used against the very people whom Congress intended to benefit. Today, in Philadelphia, we have thousands of families living in housing purchased through the FHA which is badly deteriorating, grossly unhealthy, and dangerous to the family's safety and well being.

In particular, I would like to discuss the role of the Federal Housing Administration in the administration of the two major homeownership programs for low income families, the 221(d)(2) and 235 programs. I would like to draw your attention to two major aspects of these programs which in the recent year has been the focus of massive publicity not only in Philadelphia but across the country. These aspects are:

- a. The total failure by FHA to properly inspect and appraise these properties; and
- b. The mounting rate of foreclosures and subsequent acquisition of these homes by FHA.

The point I would like to fully discuss with this committee is that these problems are directly connected and one cannot logically discuss one without the other.

THE QUALITY OF HOMES BEING PURCHASED—WHY HAVE THEY BEEN A TOTAL FAILURE?

Recently in a press conference, Secretary Romney commenting on the mounting criticism of FHA programs stated that "this situation was the result of policies pursued beginning in 1967 under Congressional pressure by the Johnson Administration". Furthermore, he stated that "the relaxation of FHA procedures went too far and that the Nixon Administration began to tighten up in the Spring of 1969". In effect, the Secretary seeks to indict the laws and the concepts of insuring and subsidizing inner city housing and simply pass it off as something which is unworkable. Let's however, examine the situation and see what really happened. Until 1967, FHA had almost totally red-lined the inner city of every major urban area in this country. There can be no question that at that time and with the passage of the 1968 Housing Act, Congress gave clear mandate to HUD as the 1968 Housing Act stated:

"The highest priority and emphasis should be given to meeting the housing needs of those families for which the national housing goal has not become a reality."

Yet, contrast this language with that of the House Banking and Currency Report on what they saw in Philadelphia in the summer of 1970:

"The worst aspect of these sales are that poor people have been saddled with 30 yr. mortgages on homes in dire need of complete rehabilitation or which should have been razed. In many cases, the staff found families who will be without heat this winter and literally have no place to turn for assistance."

At this point, I would like to make one thing clear: the failure of these programs are not as Secretary Romney indicates—to any fault of the law or in the concept of revitalizing inner city housing. It is, in our estimation, due almost entirely to what Secretary Romney will not admit, an incompetent, callous and unlawful administration of these programs by FHA.

Our office in the last two years has been substantially involved in the problems relating to the quality of homes sold under these FHA programs. We have handled thousands of cases where families had purchased homes through the FHA and discovered that within weeks of purchasing the houses were literally falling apart. People thought that by buying a home through the Federal Government they would be able to move out of their former ghetto and into better living conditions

for themselves. Instead, today, May 1, 1972, there are thousands of families living in houses recently insured and subsidized by FHA which the Philadelphia Department of Licenses and Inspections aptly describe as unfit for human habitation.

In response to this situation, Community Legal Services on January 27, 1971 filed a class action lawsuit in Federal Court, *Davis et al. v. Romney et al.*, on behalf of all purchasers of 221(d)(2) and 235 purchasers. We sought not only corrective measures for the future but compensation for those who have been injured by FHA's total abdication of their statutory responsibilities. This case is still pending before the Court.

How can this happen? A close look to the administration of these programs by the Philadelphia Office of FHA reveals the following:

1. That the Philadelphia Office totally failed to comply with the statutory requirement that all homes insured and subsidized under these programs meet the requirements of the Philadelphia Housing Code.

2. That instead of using competent and trained housing inspectors, the Philadelphia Office used what is called a "fee appraiser" to inspect these homes. These people were real estate brokers and salesmen who were paid \$40 a house on a part-time basis to inspect these homes. They were not trained in any aspects of housing quality and the conflicts of interest among them were clear and abundant.

3. That FHA created a system whereby plumbers, electricians, roofers, etc. would be required to submit certifications to FHA as to the condition of certain operating systems. Homeowners received these and of course took it for granted that they meant an operating system was in good working order. However, when the systems failed and the homeowner complained to FHA, FHA took a position in effect which said the certificates were meaningless.

Next, we must ask what has HUD done in Philadelphia to meet these problems. We feel very little. In a futile attempt to create some protection for the homeowner, HUD has only created more paperwork, more "so-called certifications" which can only lead to more corruption and abuse. At present, they still continue to refuse to take responsibility for the proper administration of these programs.

FORECLOSURES—WHY?

At this point, I would like to briefly touch on the problem of the massive foreclosure rates occurring not only in Philadelphia but across the country. Secretary Romney in answering a letter from Senator Sparkman which appears in the February 8, 1972 Congressional Record, listed in the following order his reasons for this mounting problem:

1. Center City Environment.
2. Homeownership Laws.
3. Inadequate Income.
4. Inadequate Understanding of the Responsibilities of Homeownership.
5. Physical Condition of the Home.

Under the last category, in one sentence, the Secretary mentions that the "failure of HUD personnel to properly inspect the properties in some instances compounds the problem".

We submit the above is only a futile attempt by HUD to refuse to face up to a responsibility which is clearly theirs. The massive foreclosure problem occurring in Philadelphia and around the country is directly and almost singularly related to one factor—the total failure by HUD to properly inspect these houses. The foreclosure rate is occurring because homeowners cannot afford to make payments on homes that are literally falling apart.

Yet, what has HUD done in Philadelphia to meet this problem. The Secretary states "that in cases where abuses have taken place forbearance procedures will be adopted to ease the burden for the homeowner". Somehow, however, this message has not gotten to Philadelphia. The Philadelphia Office and various mortgage companies servicing FHA insured mortgages have made it quite clear that the condition of the home is not taken into consideration as a hardship for relief to avoid foreclosure. What has happened and will happen is inevitable. Homes are being abandoned and foreclosed and the rate is skyrocketing.

In addition to the servicing practices mentioned above, mortgage companies have used and continue to use outrageous practices to harass and intimidate low income homeowners. Most disturbing, however, is the large profits being made by mortgage companies on the broken dreams of hundreds of low income homeowners. These profits are made through the discount point system coupled with "forced" early foreclosures on FHA insured mortgages.

The system works as follows on a hypothetical FHA house with a sale price of \$10,000. The amount of the FHA insured loan which the homeowner must pay is \$10,000; but in making the loan, the mortgage banker charges 8 points or \$800 to the seller so that he only loans \$9,200. If the mortgage goes into foreclosure within one year, the mortgage company is paid the insured value of the mortgage of \$10,000, plus interest, delinquent payments and most of its foreclosure costs. The resulting profit runs as high as 30% on a one year investment.

The problems before us are immense but our goal must be not to retreat from the inner city but instead to work toward and demand a competent and lawful administration of these programs. Let's give an honest look to why these programs have failed. In doing so, I submit you will find that the laws in the main are adequate and that the concept of revitalizing the inner city is sound and fundamental to saving our cities. You will also find, however, an administration of these programs which has cast a notoriety on them which they do not deserve.

Mrs. CINCOTTA. Next, we will hear from Mr. Sporleder, S-p-o-r-l-e-d-e-r, from St. Louis.

STATEMENT OF JAMES H. SPORLEDER, CONSULTANT TO GREATER ST. LOUIS COMMITTEE FOR FREEDOM OF RESIDENCE

Mr. SPORLEDER. Thank you.

The poor people of St. Louis appreciate the opportunity to be heard here. I will not read from my testimony, but I would like to note one correction on page 3 where it is mentioned that the area of Jeff-Vander-Lou Inc., it says "three" in the statement, "three real estate companies", but it is "13 real estate dealers."

To read my testimony would be to repeat many of these things you have heard here. I'll emphasize that the biggest difficulty we have is convincing the housing officials and politicians and the President that, in fact, there is a conspiracy, that these are not isolated, unrelated, unconnected incidents. That this is an organized, exploitive process that destroys the city and, in destroying it, feeds the economy and the development of the county blight, or whatever you wish to call it, which is spread from our arch to the county limits and across. As blacks have been moved into white neighborhoods, whites have fled out to the county, to aid in the development of those county conditions.

The process begins with the block-busting tactics or a blanket cancellation of insurance in areas, anything that will cause large numbers of sales. We lose, through the same exploitive lending policy, loans being available to speculators to purchase houses, the same houses. And when an individual applies for mortgage to repair or to purchase, they are denied.

From that point, the area begins collapsing as use is made of the exorbitant advantages of depreciation by real estate dealers and the mortgage companies. Finally, we end up, generally, with urban renewal projects, and from there, one example, I think, would serve to show the incredible advantages offered. And one of our largest real estate dealers, the Bruner Co., sold a parcel to an outfit named Land Clearance, Inc. Six months later, the same party bought back this property for \$4,300, and during the 6 months that Land Clearance owned it, it spent 6 months clearing off junk.

They then arranged for a \$25,000, 3-percent HUD loan so that it could get either blacktop or repair an adjacent apartment building. The 221(d)(2) program Mr. Midletter, who spent 2 years in the federal pen for falsifying VA forms, was granted \$180,000 worth of

FHA insurance mortgages on property he sold. This same man had been blacklisted by HUD and still owes money from his first indictment.

At the same time that went on, the organization I work for spent 6 months, unsuccessfully to date, trying to get the \$43,000 grant to rehabilitate seven units in its area.

This organization, by the way, has rehabilitated over 125 units successfully with no foreclosures. These are just two examples, but I think the main point I want to stress is that as we compare the real estate dealers-brokers list with the insurance brokers list, with the officers of lending firms, we find at least a third of the names appear on each of these lists.

A closer check of corporation officers and staff, et cetera, increases these interlockings to at least half on each list. In other words, the processes described here to you in St. Louis' case, and I am sure in the others, are a monopoly and certainly should be considered as antitrust. A monopoly controls all aspects of this problem for their profit.

Let me make a couple of other comments. In your opening remarks, Senator Hart, as much as we pray for your assistance, I must say that I hope that we can do something besides determine if there is a way to correct the anticompetitive practices. We must.

It is not just an if. When Lockheed was in trouble, this Government figured out a way to help it. When the oil industry was in trouble, we helped it then. When ITT got into trouble, somebody figured out a way to help it. And now the people are in trouble. The people are hurting and they are asking for help.

While industry and business may give money, the people give life, and they can take it away as well, just the same as this Government has taken it away from them. We must point fingers of guilt because when our people steal bread to eat, fingers are pointed at them. When our children steal cars because they do not have recreational facilities, the fingers are pointed at them.

We cannot sweep these practices and these exploitive operations of the combination of lenders, real estate dealers, insurance people, and politicians under the table. It must stop.

Thank you.

[Applause.]

Incidentally, I have, in my testimony, included a list of news clippings which I have here, and I could not make 200 copies to send along but I have one set that I will submit.

(The full prepared statement of Mr. James H. Sporleder follows—testimony resumes on p. 38).

STATEMENT OF JAMES H. SPORLEDER, CONSULTANT TO FREEDOM OF RESIDENCE,
FORMER EXECUTIVE DIRECTOR OF FREEDOM OF RESIDENCE

I would like to offer for your consideration a fairly detailed, step-by-step process, which depends on discrimination, through which (1) real estate dealers get rich (er), (2) blacks get poorer, and (3) communities are destroyed.

In 1969 Freedom of Residence printed a study entitled, Patterns of Discrimination, by Hedy Epstein, Coordinator. This study dealing with the 15 largest (determined by size of sales staff) real estate dealers in St. Louis-St. Louis County indicates the kind of manipulation which is the beginning step in a very lucrative series of events. With only blacks being shown and buying in a neighborhood, whites panic, and a great many sales are generated many of these "double sales" i.e. the dealer sells the white man his new house out in "safe" country as well as ar-

ranges the sale of his old home—two commissions instead of the usual one. With many units for sale in one neighborhood the price drops below value. This gives the opportunity for further profit. The dealer sells such a unit not to a black family but to himself or a strawparty, or one of this "straw" business (corporations in which he has controlling interest). He then resells at an inflated value to a black family.

Other potential profits are available in the area of financing at this point. The same kind of limiting is done by the money lending agencies. Some companies will not lend to whites in these areas and likewise will turn down blacks. Without full access to the money lending market blacks are prey for a range of high interest, short term loans. In many cases the real estate dealer will have access to his own money through small "investment companies" or savings companies in which he holds controlling interest. He offers to "help" the black man seeking financing and the end result is 1, 2 and sometimes 3 deeds of trust, at high interest and short term which have to be renewed every 2 or 3 years for a fee. The customer puts down \$500. The first deed of trust will be for a significant amount let's say \$10,000 of the \$15,500 full price. The remaining \$5,500 is covered by 1 or 2 deeds of trust given by the dealer from his own resources. These loans are, as stated, at exorbitant rates, short term, and renewable at ridiculous fees.

Lending agencies will finance the slum dealers because experience shows they can turn a profit. Motivation may also depend on partial ownership and/or large deposits by dealers. The individual, community group, church, etc. will find a deaf ear when seeking financing to purchase and improve in areas controlled by dealers, since to do so would disrupt a profitable process. In many cases the same company refusing financing to such an individual, group; etc. will be found financing the same piece of property for a dealer. The key is that the dealer may well own, or control the lending agency. In either case he can assure the lender a profit through these exploitive methods.

It is common practice for a savings and loan or other lending agency to, in effect, turn over its holdings to a dealer who will perform management functions. These would include putting the property in straw names, collecting rent, making minimal repairs, arranging insurance, arson, etc.

Thus, real estate dealers and lending agencies (often the same people), are able to turn a quick profit and at the same time gain economic control over an entire neighborhood or community by buying cheap and controlling financing.

Multiple family property is likewise bought up by the same dealers. Through political influence minimum housing code enforcement is lax, and overcrowding, illegal occupancy and code violations go unchecked. The individual home owner that files a complaint against one of the dealers finds his own home inspected and, lacking the necessary legal assistance, is often fined for violations while the dealer gets continuances, small fines (if any at all), and probation.

In St. Louis the Building Inspector's office is a politically appointed position. All jobs in this division are patronage. The Alderman in the 8th Ward is chairman of the Public Safety Committee, an Aldermanic Committee, charged with reviewing the operations of this division. No such review has been made under his administration—2 years. (The Public Safety Committee works closely with the Building Inspector's office) This Alderman owns a loan company with significant investments in slum property. The 8th Ward committeeman likewise runs a Savings and Loan firm with similar investments.

In the last year, after considerable pressure and several scandals, the Mayor replaced the housing court judge with two new judges. Within months the Savings and Loan League threatened to stop making loans in the City if the Mayor didn't make the housing court let up on savings and loan property violations. Since the cases reaching court depend on building inspector's citations, this was easily accomplished.

Other incentives are available to the slum dealer. Depreciation is a well used exploitive opportunity. Dealer A buys a 4 family flat for \$30,000. He claims, for tax purposes, the building has a 30 year economic life. For 30 years he can write off \$1,000 of profit against this depreciation. Using the "double declining balance" method most of the \$30,000 can be written off in the first 15 or so years. Dealer A then sells this building to Dealer B who sells Dealer A a similar building back. Both dealers again claim 25 or 30 years economic life and begin writing off another \$30,000 investment each. As you can see this may be accomplished without any exchange of cash.

Other data supporting the contention of a restricted housing market or limited housing options includes figures showing relative costs. Some slum "apartments" rent for as much or more per square foot as moderate or middle income apartments

in the "white" county areas. In addition, some apartments in black slum areas are 10% or more above the price of physically similar units in white slum areas. This demonstrates the greater success in containing and limiting blacks than low-income whites.

Ownership and control of entire areas by a few dealers is commonplace. Data gathered in the Jeff-Vander-Lou, Inc. area just west of Pruitt-Igde showed 85% of the land, about 500 square blocks, was owned and controlled by 3 real estate companies.

Needless to say the above described process is physically debilitating. It is obvious that the cash flow is out of the community. Little if any is put back in the form of required repairs or renovations. Home owners, restricted by exorbitant mortgage demands, have little money available for maintenance and repairs and the entire area suffers physically. Eventually the area becomes a slum. The city "discovers" this "problem area" and proposes blighting and urban renewal.

The disparity in treatment of dealers and home owners in urban renewal areas is demonstrated by several deals uncovered in the West End Urban Renewal Project currently being challenged by local citizens and investigated by the FBI, IRS, and Housing and Urban Development (HUD). (Research leading to litigation conducted by F.O.R.)

One dealer sold a parcel to Land Clearance for Redevelopment Authority, using a straw party, for \$42,500. Six months later the same dealer bought back this parcel for \$3,100 (\$39,400 profit). During the six months Land Clearance for Redevelopment Authority held title it spent \$4,000 cleaning of the junk property left after years of exploitive management. As if that were not enough, Land Clearance for Redevelopment Authority arranged a \$25,000 HUD loan at 3% interest so the dealer could black top the lot and make repairs to an adjacent apartment building.

At the same time Land Clearance for Redevelopment Authority staff was notifying a money lender holding a note on one family's home, of Land Clearance for Redevelopment Authority's intention to buy the unit. The money lender foreclosed on a technicality. The home owner lost his equity when the money lender repossessed the property. The money lender then sold it to Land Clearance for Redevelopment Authority for full price.

These and many other examples were used in a lawsuit filed by residents of the West End Urban Renewal Area. This suit has been tied up for over 2 years while the process continues. HUD, FBI, the U.S. Attorney's office and a grand jury have been "investigating" this situation but other than threats of indicting a small black moving firm nothing has happened. The suit also contended that the Workable Program was fraudulent. By rights HUD should have suspended Urban Renewal and other programs dependent on the existence of a Workable Program until an accurate, honest Program was presented. To date HUD has ignored the charge.

Further economic advantage is offered this combine through the urban renewal process when the rapid appreciation of land is considered. One plot of ground in the Mill Creek Urban Renewal Project was appraised at (land value only-not improvements) \$100,000. After urban renewal the appraised value increased 9 fold to \$900,000. While the use of the land is restricted for 25 years, the increased land value makes additional monies available to the owner through loans.

Whether in collusion with or precipitated by the destructive practices of dealers, the sudden cancellation of insurance coverage throughout large sections of middle income black or integrated areas results in the same increase in sales as blockbusting tactics. This represents another way of initiating the exploitive, lucrative process which destroys urban areas.

This type of activity has lessened with the advent of the "Fair Plan", Missouri's law requiring the industry to cover housing regardless of the area-slum or economically stable. With their usual creative verve, however, the dealers quickly turned this situation to their advantage. St. Louis has been suffering from an incredible increase in arson since the inception of the Fair Plan. Dealers experience little if any difficulty in getting policies covering property far in excess of its value. Often within 2 or 3 months the property burns and the dealer collects. Estimates of millions of dollars in "arson for profit" are bound to be accurate.

Another fact worth noting is that many real estate dealers are also insurance brokers. It is a well documented fact that prior to Fair Plan, homeowner's insurance policies never lasted any longer than their financing at the time mortgages were paid off, insurance was cancelled. More and more evidence that dealers are writing insurance on their own property, held in straw names and then burning it for profit is being uncovered.

Tax advantages are also appreciable and the City has shown itself willing to circumvent and extend the liberal advantages offered under the law. An example is the Civic Center Redevelopment area, renewed under the state law. This law allows a 10 year tax assessment at the tax level in force 1 year prior to designation as a renewal project. For the next 15 years, the land is taxed at $\frac{1}{2}$ the assessed valuation of land and improvements, and at the end of 25 years, the property goes back on the tax roles at full assessed value. The land involved in the Civic Center Redevelopment area is getting an additional 31 years total tax relief. Land Clearance for Redevelopment Authority has retained title and is leasing the land to the private redevelopers for 31 years. The property will then be sold to the private redevelopers and the 25 year tax abatement will begin.

Perhaps the most destructive aid to this whole process is the Department of Housing Urban Development. Every program, (Concentrated Code Enforcement, 235, Urban Renewal, 221D-2, etc.), that has come into St. Louis has been abused and exploited through the combined efforts of real estate dealers, lenders, and politicians. Programs designed to improve the conditions of poor people have left them in worse straits and fattened the purses of the political—real estate—lending combine. Attached to this testimony is a list of news clippings Freedom of Residence (FOR) helped research and develop as examples. (235, 221-D-2, Concentrated Code Enforcement, Arson, etc.)

HUD's actions are a combination of destructive collusion with the worst lenders, real estate dealers, insurance companies and politicians together with a total lack of sense in dealing with those who have honestly tried to save the city.

Of equal or greater importance is the fate of residents, tenants and property owners alike—in the wake of urban renewal. The city eliminates its responsibility for relocating by allowing buildings and services to deteriorate past the point where the area is livable. This occurs before the formal renewal process to begin thus most residents are gone—"funneled" into another area where the process begins all over again.

In short what is and has been happening and will continue to happen to the City of St. Louis is a very specific process of exploitation. This process, as well as destroying the city, while making a profit, feeds the burgeoning economic well-being of the real estate dealers, lenders, builders and politicians in the county. By scaring whites in the city the real estate combine develops the market for purchasing housing, developing industry, commerce etc. in the county. This process was not quite as evident when there was a large influx of poor blacks and whites from rural areas. Since the decline of in-migration, the core areas are abandoned with no one to fill in behind. Black citizens, in pursuit of the elusive goal of decent communities, are being manipulated for profit by the process described in this testimony and funneled into specified areas. Fleeing whites fill up the new developments in the county—and the city dies.

This testimony is based on and is an expansion of an article which appeared in the April 1971 issue of "Proud" magazine.

LIST OF NEWSPAPER CLIPPINGS

235

St. Louis Post Dispatch—9-1-70; "Home Subsidy Halt."

St. Louis Post Dispatch—12-17-70; "Black's Year Old Home in Suburb Falling Apart."

St. Louis Globe Democrat—12-17-70; "Buyers Exploited Under HUD Program, Report Says."

St. Louis Post Dispatch—12-27-70; "Some Home Buyers Praise Federal Subsidy Program."

St. Louis Globe Democrat—1-6-71; "Lax HUD Agents to be Fired; Romney."

St. Louis Post Dispatch—2-7-71; "The Rain Fell Inside Subsidy-Plan House."

St. Louis Globe Democrat—2-8-71; "Ceilings Fall in House Bought Under 235 Plan."

221-D-2

St. Louis Globe Democrat—3-4 & 5-72; "House Buying Poor Being Bilked."

St. Louis Globe Democrat—3-6-72; "84 Former Homes; 84 Vacant Lots."

St. Louis Globe Democrat—3-7-72; "Eagleton Says FHA Hasn't Done Its Job."

St. Louis Globe Democrat—3-8-72; "HUD Refuses to Tell Who Did FHA Appraisals."

- St. Louis Globe Democrat—3-9-72; "HUD is Frustrating Right to Know, Eagleton Charges."
- St. Louis Globe Democrat—3-9-72; "Dream Home is a Nightmare to Family That Fled Ghetto."
- St. Louis Globe Democrat—3-11 & 12-72; "St. Louis Housing Debacle."
- St. Louis Globe Democrat—3-13-72; "5 Realty Firms Top FHA Foreclosure List."
- St. Louis Globe Democrat—3-14-72; "Mortgage Companies Force Defaults, Legal Aid Says."
- St. Louis Post-Dispatch—3-14-72; "Charges Poor are Gouged on Home Insurance."
- St. Louis Globe Democrat—3-17-72; "Bernard Mitleider—FHA \$180,000 Risk."
- St. Louis Post-Dispatch—3-17-72; "FHA Insured Buildings Bought by Ex-Convict."
- St. Louis Globe Democrat—3-18 & 19-72; "Homeowner Bilked of \$8,000, Suit Says."
- St. Louis Globe Democrat—3-20-72; "Romney Hits Speculators."
- St. Louis Globe Democrat—3-21-72; "Gross FHA Negligence."
- St. Louis Globe Democrat—3-23-72; "FHA Loans Get an Unfair Deal, Official Says."
- St. Louis Globe Democrat—3-27-72; "Inquiry on Mortgage Banker Sought."

ARSON FOR PROFIT

- St. Louis Globe Democrat—10-21-71; "Grand Jury Inquiry Into Arson-for-Profit."
- St. Louis Post-Dispatch—10-24-71; "\$50,000 Paid in 5 Fires."
- St. Louis Globe Democrat—10-27-71; "Fire Claims Are Paid While Taxes Are Not."
- St. Louis Post-Dispatch—10-28-71; "More Fire Payments Are Traced to Green."
- St. Louis Post-Dispatch—11-3-71; "Suspicious Fires Up Sharply in Wellston."

HOME LOANS

- St. Louis Post-Dispatch—12-16-70; "Abuses in Sale of Homes to Poor."
- St. Louis Globe Democrat—4-20-71; "St. Louis Called Leader in Flight From Cities."
- St. Louis Post-Dispatch—10-31-71; "Crisis in Home Loans Confronts Most of City."
- St. Louis Post-Dispatch—11-14-71; "New City Program May Help Declining Neighborhoods."
- St. Louis Post-Dispatch—11-21-71; "City May Apply Pressure to Ease Home Loan Crisis."

CODE ENFORCEMENT OR LACK THEREOF

- St. Louis Post-Dispatch—11-7-71; "Condemned Building Is Home For 8."
- St. Louis Post-Dispatch—11-18-71; "Going to the Well."
- St. Louis Post-Dispatch—1-23-72; "Plight of Frozen Woman."
- St. Louis Post-Dispatch—3-10-72; "Lucky to Have Roof, Even if it's Caving In."

BLIGHTING—INSURANCE

- St. Louis Post-Dispatch—2-14-71; "Blighting Plan Causes Fears Over Insurance."

Senator HART. The really difficult problem, and I buy your idea, I said that there is a solution and I'll hang onto that because one of the limitations is that of human nature. Perhaps the Father could help me on this, but that is the basic problem. You must realize that human nature is what you are dealing with. This is my only reservation.

Mr. SPORLEDER. It is totally frustrating to hear Mr. Romney and others say there may be no solution. We cannot help, we do not know the answers.

Mr. Chairman, we are giving answers to it. Part of the answer is to stop the destruction, stop the rates. You cannot begin to repair with these rates.

Mrs. CINCOTTA. We have come up with recommendations from the National Peoples Action on Housing. We have worked through workshops and come up with many recommendations we are submitting. What we are saying to you, somebody has to identify who the mean people are that are causing the destruction, and if the politicians go along, that is a natural phenomena, and we are saying it is a conspiracy. It is collusion. You have to break up the monopoly. You have to have rules where the realtors obey the open housing directives, where the savings and loans, and banks, who take our money out of our communities are forced to put money back in, where the insurance companies who tell me if I live six blocks farther away, I will pay 40-percent less on my insurance.

Everybody in this room can tell you these stories. Everybody has horror stories. Everybody has documentation like Walter Brooks has given you. We have given it to the Justice Department and every other agency.

As I said, there are files filled with this and it cannot be just human nature. The only human nature I see in this are the people who are out to make the fast buck. The majority of the people have to be protected, and this committee has to subpoena Romney and deal with him, bring HUD to task. If we cannot have faith in the U.S. Government, FHA and, HUD, who are we going to have faith in?

Senator HART. We cannot shut off the war that the overwhelming majority of the country wants us to shut off.

Mrs. CINCOTTA. I agree. My son fought in Vietnam. What kind of a city is he coming back to, you know?

Senator HART. I do know. I do know and redlining is the product of the collective action, collusive action by banks and insurance companies which is, I believe, a violation of the antitrust laws.

If the high appraisals of properties by FHA is a result of an agreement, even if it is just an implied one by the appraiser and the lending institution and the real estate salesmen, that is in violation of the antitrust laws.

You help us document these. Others will. And we will do our best to establish a record to make it difficult not to escape the conclusion that there are some incidences of violation of law now, that there are changes in the law which might reduce the opportunity, prevent temptation, a record that will be available to the community lawyer groups which we have representative people here subject to abusive practices that you described.

Perhaps one of the most disturbing things that you remind us of is the black and white Americans believe that the opposite color is really the principal contributor to the problems, as though we did not have enough disaster threatening us for our failure to understand this problem. This practice in these communities simply heightens it, I know that.

Senator Fong, any comment?

Senator FONG. I've listened, Mr. Chairman, to all of the testimony here this morning, and it seems to me that there are laws now to protect the people against many of these deprivations which they are now having forced upon them.

There are laws against fraud and there are laws against block-busting. There are laws against scaring people, and maybe much of this could be done locally.

Mrs. CINCOTTA. That is why Father Dodaro gave you an example of a couple of years of work by a well-organized community on the west side of Chicago. Three real estate companies have a change of hands, the people, the resources, the funds to get lawyers that go through the court system to even have this done on one or two realtors, one in our community. In the State of Illinois, there are 20,000 licensed realtors, and in a community that is undergoing change, you might have 35 realtors. You might have 300 realty companies employing two to 60 people each. The people cannot keep up with it. It has to be handled by your committee. To give it to the persons suffering, to say you fight it through the court system, that is impossible. We are going to lose.

Senator FOXE. What I'm trying to say is this. We have a federal system. There are many laws, violation of which is taken care of by the city, or by the county, or by the State. The other laws are Federal laws which the Federal Government has cognizance of.

Mr. Brooks pinpointed one phase of the law in which we would help, and that is the careful inspection by FHA people. Now, I understand much of these inspections have not taken place and I also understand they have been very negligible in the matter of seeing that they live up to the specifications of their contract when they build a home.

And that when FHA gives the mortgage, that there is a certain implied understanding by the buyer that FHA has taken a look at these premises and that these premises are livable, and that the house has been built according to specifications. I can see where the Federal Government can move in that area and have stricter enforcement of these specifications and see that these provisions are being carried out.

Now, when it comes to fraud by the realtor, that is a State function or a county function. If the State feels that this realtor is not a man that is to be trusted, that he has been guilty of fraud elsewhere, they should not grant him a license to practice fraud on other people.

Now, this is what I am saying. There are many factors to this problem. Let me say that there is the factor of the Federal Government coming in and helping him out.

The gentleman from St. Louis, who said we have helped Lockheed and others—let me say that I sit on the Appropriations Committee on HUD, and the request which has come in for this year's appropriation to help people in housing I think went from \$3 billion to \$4 billion, and this is going to proliferate. Whatever we have already contracted for people who are in housing that the Federal Government will pick up the tab on, runs close to almost \$100 billion.

You seem to imply that the Federal Government is not doing its part in seeing that people are housed, and that is not correct because the Federal Government is doing everything possible to see that we have decent housing.

Mr. BROOKS. If I may, I think all of us are aware and we testified to some of the discrepancies on the part of the Federal Government in applying its force in correcting some of these problems. Mr. Romney has stated, across the face of this country, that his whole Department is contributing to this problem.

This committee, if it does nothing, it has to get Mr. Romney in here. You have to subpoena him in here. It has to deal with HUD releasing funds to the city, all because of a policy that comes out of the Department which everyone is objecting to from Maine to California. This committee must take some action. We cannot do it by ourselves. We have gone across the country, every city that Mr. Romney appears in, and we bring the problem to him. This committee should have the power, Mr. Chairman.

Senator FONG. This committee is an antitrust committee. It is only interested in the anticompetitive features of the matter. The Banking Committee is the committee which has almost complete jurisdiction on housing and how these should be implemented, what provisions should go into the housing bill.

The Banking Committee has that function and we are here before the Antitrust Committee looking into the anticompetitive features of housing, financing, and building.

Mrs. CINCOTTA. We are talking about mortgage brokerage houses and realtors using FHA in a conspiracy, total FHA in one area, total conventional in another area across the street. We are saying how it is being used. It is a monopoly you have to break up. You have to have the power to stop this kind of action of how HUD is being used by savings and loans, mortgage brokers and realtors, and it is not a problem we can say we have one realtor at a time under the existing system. It has to be handled by the committee. We say it is not one realtor at a time; all of them are knowingly a part and doing this to the cities, all of them to get together and redline us.

Senator FONG. We would be very happy if you can give us the evidence to show this.

Mrs. CINCOTTA. The evidence is the city, the deterioration of one community after another. There are whole files full of it. If anybody can deny that there is no evidence and it is not happening, let me hear from him. It is happening.

Call the head of HUD here. Call in the realtors. Call in mortgage bankers, the Metropolitan Insurance Co. They write all the mortgage papers on FHA insured money and never take a risk. We pay every time there is foreclosure. They get off scot free, but they write all the paper. It is a monopoly. We cannot deal with everybody here, one by one.

The proof is, we are losing our cities. We are losing our communities. The blacks are saying it, the whites, the latinos. I don't know how much more proof the people can bring to you, plus their own misery, to get you to understand that it is happening.

Senator FONG. Well, if you can give us concrete evidence, you are here for a hearing. We sit here in the committee, as committee members, to listen to your complaints and just by yelling out is not going to help you.

This committee is not a biased committee. This committee listens to the evidence. We want concrete evidence and we want concrete evidence before we move, and we cannot get the concrete evidence. Just by making statements is not going to prove your case. You have to give us concrete evidence that there is collusion, there is a monopoly, that they are in collusion together to deprive certain people from having certain mortgages and certain financing. And then, this committee will act.

Senator HART. I think before these hearings are concluded, there will be various specific evidence in this record.

Mrs. CINCOTTA. We will see.

Mr. SPORLEDER. You talk about the money appropriated by the Federal Government. Well, that money never gets to the pockets or to the advantage of poor people. It ends up in the pockets of real estate dealers, politicians, mortgage brokers and insurance companies.

And when you speak of the courts, Senator, we filed a case 2½ years ago against the kind of practice I described in the Westend Urban Renewal Project, and we claimed then the workable program was a fraud, a phony. And by rights, every HUD program that depends on the workable program should have been stopped. That has never happened. The suit is still pending.

The Freedom of Residence, itself, investigated the 15 largest real estate firms in the city and developed a practice or a pattern suit. They filed against only four real estate dealers, giving the realtors 60 days to get in order. On the 61st day, we had checkers in the real estate office, and on the 65th day, we had another suit. That is the kind of justice we are getting out of the courts.

Mrs. CINCOTTA. We did the same thing in Chicago. We went through the courts for a couple of years. We had a real estate company plead guilty to mail fraud and FHA. You go through a couple of years, and they are out on probation. They can sell real estate.

When you tell the little people, go through the courts, we have went this route. We are coming to you, our elected officials to do something to salvage the cities of the United States.

Senator FONG. I want to say, only recently here in Washington, D.C., the courts have gone out for a few realtors who have defrauded people in questionable mortgages.

In New York the district attorney brought up indictments against lenders, the same type you're talking about, so you just cannot say the Government is not doing anything.

I want to say that these things are happening in the various cities. These violations should be brought to the attention of the U.S. District Attorney in the various cities.

Mrs. CINCOTTA. We have brought them, and we have asked at least Federal money be cut off to these realtors, to these mortgage houses. And it is not being done. They are given carte blanche. They are given our money to go do again, and they have never even gotten their funds cut off.

Senator FONG. As I understand it, FHA goes to the man who buys the house, and he takes out a mortgage and the FHA guarantees it.

Mrs. CINCOTTA. The FHA?

Senator HART. Just a moment. It would help all of us if one person spoke at a time.

Senator FONG. The FHA does not guarantee the mortgage. The FHA looks into the viability of the buyer and if the FHA says a buyer cannot repay the mortgage, FHA will not grant a mortgage. FHA looks into the capacity of the buyer to meet the requirement, the monthly requirement. So when you say FHA takes care of the cost, this is not true. FHA insures the mortgage as far as the buyer of the house is concerned. He buys the home and says that, I want a \$15,000 mortgage. FHA looks into the viability of the buyer to see whether

he can meet the requirements of repaying, and then gives a guarantee to the lending company that he is going to be guaranteed.

Mrs. CINCOTTA. What I am saying about FHA guaranteeing is what you just said, the mortgage house cannot lose. If it is foreclosed, if there are building violations, the people cannot fix them, then the money is paid to the mortgage company and the people are penalized, and they cannot buy another FHA home for 2 years.

You are, indeed, subsidizing the money people again by just what you said. You guarantee to the mortgage brokers that they will not lose their money. Everybody is guaranteed something but the people.

Mr. BROOKS. This group this morning has given this committee enough evidence since this committee does have investigative powers, it seems to me that an investigation has to start across the board in special, specific areas we are concerned about.

It does not take very much to understand that. I think it has been very honestly put forward, and it seems to me that has to happen. We have to take back word to the people out there. That is very good for us this morning, but the people out there need some hope. They have to have the word that somebody is going to investigate and do something about this.

Senator HART. If the Senator will yield, we hope to prove the existence of some of these practices from those involved themselves before this hearing is over.

For this hearing alone we have gotten information from about 650 banks in New York. We have issued approximately 25 subpoenas.

Senator FONG. I would like to insert in the record here what Senator Taft said on the floor of the Senate in citing the *Wall Street Journal*, which recently published an excellent editorial along these lines. And the editorial goes forward and says:

Nationally, it has been estimated that the FHA losses through housing frauds could cost the Government over \$500 million, and the FHA standard is only a part of HUD's trouble.

The trouble can mainly be attributed to the Housing and Urban Development Act of 1968, which President Johnson proposed in Congress, somewhat naively and typical of Johnsonian style, et cetera.

The President held a national need of 26 million new homes in a decade to replace substandard misery where 20 million now live.

The new bill lacks FHA assurance, but also provides direct mortgage subsidies so that families above and below the poverty line could buy their own homes.

I ask that this be included in the record.

Senator HART. It will be made part of the record at this point.

Mr. GOULD. Senator Fong, I would like to respond to that editorial.

The 1968 Housing and Urban Development Act did not liberalize in any way the condition of the homes which were sold to the FHA. In fact, if anything, it strengthened it. It reiterated what was said in 1961, that all homes insured under sections 221 and 235 must comply with local housing codes.

In fact, with all the rhetoric by Secretary Romney blaming President Johnson, Commissioner Brownstein in 1968 and 1967 said the let-up came about by the local office of FHA, they were putting pressure on to sell these shoddy homes.

The law did not in any respect liberalize the condition of these homes. It only allowed for low-income people to become homebuyers. If anything, it set up tighter regulations, tighter controls on what homes should be insured and subsidized.

This is a lot of rhetoric on what is happening. In fact, the 1968 Housing Act did not, in any way, say that shoddy homes should be sold. And to blame the law for a total failure by FHA to administer it is an incredible mistake by Secretary Romney to destroy the very purpose.

Senator FONG. Do I understand you are saying our problem here lies with HUD in not enforcing its inspection?

Mr. GOULD. That is correct.

Senator FONG. Do I understand you to say that the inspectors somewhat are under the pressure of the real estate people and the real estate people who have colluded with the inspectors?

Mr. GOULD. It is not only the inspectors, but the top administration in FHA.

Senator FONG. Have the lenders and the FHA people, which would be Romney's people, have they colluded so that inspections have been negligent, so that sometimes there is no inspection, faulty things have been let go so that the people who bought them bought really substandard homes that did not come up to specifications?

Mr. GOULD. That is correct.

Senator FONG. Then we have something to go after now. We have something to put our finger on and to see where the problem is.

Mrs. CINCOTTA. This is what we are saying. There is collusion, that FHA and HUD are being used by all these people. That is where we feel the collusion comes in.

We do not want to kill housing for poor people or middle-income or low-income people. We want good programs.

We also want an administrator, a person who can handle and be in charge of it. We want it to be standardized throughout the United States. We want the practice of shoddy homes being sold to be stopped. And George Romney has got to be accountable, and you cannot blame Democrats or Republicans or play them against each other, because in the end the people leave all the time and this name calling is not good.

This is a conspiracy of money people and realtors who are doing it, and the people are suffering. By what you just read, if that isn't enough proof that many homes had to be repossessed, causing the taxpayers that much money, I do not know what any one of us can bring to you.

Mr. SPORLEDER. HUD's own review of 235 indicates and states that there is probable fraud in the operation of FHA in this particular program, so it is in the record as well.

Senator FONG. We had a meeting last week, and I asked Mr. Romney, when he appeared before our committee last week—

Mrs. CINCOTTA. Call him in again.

Senator FONG. I will ask the chairman if he intends to do that.

Mrs. Fox (a member of the audience). It sounds to me like this Senator—and I do not know if he is a Senator or not—but he is trying to cover up for what is going on.

Senator FONG. I am not trying to cover up anything.

Mrs. Fox. Are you a Republican?

Senator FONG. Yes, I am. I come from a State that voted 94 per cent for President Johnson.

Mr. Chairman, may I ask whether you intend to call Mr. Romney here?

Senator HART. It has not been the intention of this subcommittee to call Secretary Romney, and let me describe why. The jurisdiction of this committee relates to conspiracy and restraint of trade.

Maladministration of HUD is not within our jurisdiction. What I intend to try and get, hopefully, out of the mouths of some who may have participated is explicit examples that suggest conspiracy and restraint of trade.

My hunch is that if all of us were possibly—and when I say all of us, I mean all within this room—no matter how many people we put in jail for fraud, until we change the structure and negate the profit, we will still be running around. That is the purpose of this committee meeting.

Mrs. CINCOTTA. Take the profit out of changing neighborhoods. If you are looking again, Senator Fong, just on the insurance issue. The insurance companies by their own admission issue out areas, talk about antitrust, with rates set for certain areas. And that is how it is, and if you live here, that is what you pay. And if you live a certain place, your car insurance is higher. And if you live a certain other place, you cannot get homeowner's insurance.

This is by their own words, by their own charge, that they are a monopoly. There is antitrust to be brought up and there is collusion between the insurance companies to do this. They will give you all the proof. They do not think there is anything wrong with redlining areas.

Mr. SPORLEDER. If you look into the staffing and HUD's office, you will find real estate people. The man who directed urban renewal for St. Louis was one of the largest slum dealers, Charles Leiber. We chased him out of his office.

Senator FONG. You say there is collusion among the insurance companies. Sometimes it is a little difficult with over 2,000 insurance companies in the United States to prove that.

Mrs. CINCOTTA. There are very large ones that control a great deal, and one is Chicago State Farm, another All State who writes a lot.

Senator FONG. Mr. Chairman, charges have been made against Mr. Romney here. I think it nothing but fair that we ask Mr. Romney or give him the record and ask if he would like to come before the committee. I think it is fair to give the man a chance to answer these charges.

Senator HART. Would you permit the committee to do that? I appreciate Senator Fong's suggestion.

Yes; we will welcome Secretary Romney.

Senator FONG. I think it is fair that we ask him, and ask him what his statement is.

Mr. CHUMBRIS. Mr. Chairman, I hate to see the question of political party get into this issue because you have a very, very serious problem. Ghettos have been here long before Nixon took office in January of 1969.

Ghettos were here long before President Kennedy took office in January of 1961, or when Eisenhower took office in 1952. So let us get this Democratic and Republican out of it because when we held our hearings in Boston last September 13, 14, and 15, dealing with the same problem that you people are bringing from Detroit, St.

Louis, Philadelphia, New York, et cetera, the problem in Boston that we went and held our hearings, was created by a pool that was created in 1962, which was during the Democratic administration.

And when we held our hearings, those problems came out. What we are trying to resolve, if we are going to resolve the problem, is to look at the problem itself, and see what can be done.

As I read earlier from this insertion in the Congressional Record, and I will read it once again because specifically Secretary Romney himself indicated, and I will read it again. It reads:

Secretary Romney has demanded that the administration of FHA programs be tightened up. Speculators and other fast-buck artists can no longer be allowed to take advantage of these programs and the low-income Americans they serve to get rid of speculators, and the FHA will have to upgrade its inspection procedures and existing housing.

Now, we are talking about FHA, the people who run in the field. Some of those people could have been in that office for 15 years. They may have come in under a Democratic administration. They are civil service, and they continue because the Republican administration cannot kick them out of office unless they do wrong. And if they do wrong, they can be prosecuted like I believe will come out in our hearings the rest of this week when some witnesses will testify as to what went on in New York City.

Now, another witness is going to testify this afternoon regarding Bedford-Stuyvesant Corp. where, as I understand from staff, they have a fund of \$100 million to loan to the poor people to get better housing, but the people, the real estate people, involved instead of going to this group that has this \$100 million to give to the poor people, are instead being bypassed and going to the real estate broker, who goes to his friend, who is a second mortgagee and who goes to his other friend and this and that. And that is why you people are having a problem.

We can better solve this problem if you forget about the Republicans and Democrats, and let us look at whether the law is adequate, and if it is not, then this committee can help improve it. And whether the administration of that law is adequate, again, Congress can say to HUD, look, we don't believe that this law is being administered according to the dictates of Congress. And if we go about it that way, if we take a finer approach to the problem, I think we may come to some kind of solution.

Mrs. CINCOTTA. What we would like to clarify is, we did not bring up the political aspect. It was read into the record by Mr. Fong, by somebody calling something Johnsonian.

We don't know who the bad guys are, what politics, or what party. We just want it cleaned up. We want something done. We are not laying blame on one or the other. It didn't come from the people. We are presenting problems. We are saying our cities are being destroyed; our communities and families are being destroyed.

As far as politics, I don't know who is better than the other. We won't start to mention that.

Mr. SPORLEDER. The way it looks, Senator, on either hand, Democrat or Republican, you end up with wings of the same bird of prey feasting on the problems and the misery of people in this country, and that is the sad sight that we look at.

Senator HART. I, as a Democrat, shall try to calm the waters. Neither party has a monopoly on wisdom or freedom from venom, and that is another part of the problem in dealing with human beings.

Senator FONG. Mr. Chairman, I think Mr. Romney fully recognizes the problem because on April 25, 1972, before the Subcommittee on HUD, Space Science, and the Senate Committee on Appropriations, Mr. Romney said as follows:

The shady, get-rich-quick scheme has involved some real estate dealers, some builders and developers, and even some housing authorities, who lined their pockets with money from unsophisticated homebuyers and renters, et cetera.

Mr. Romney goes on and says:

Regrettably, some FHA personnel were involved in graft, conflict of interest, and corruption, and has resulted in my asking the FBI to investigate a total of over 750 cases including those that we have referred to it, some involving FHA personnel. We are cooperating fully with grand juries in four cities and we asked the Department of Justice to give our investigatory requests priority action.

This shows that Mr. Romney is fully cognizant that there are a lot of real estate salesmen, builders, and developers, who are not toeing the line.

Reverend DODARO. Mr. Romney says, "I am doing it," all the time. He told us there is no problem in Chicago. That is why we presented him with 70 cases, documented. We gave them to Mr. Weiner. He had no money to reimburse the people who were cheated, but he sure had enough money to put in \$2,000 worth of steel gates to keep us out of his office. On three occasions we asked to meet with him. He would not even meet with us. On several other occasions, we invited him to meetings, small meetings, and every time he comes out with the same thing, we are animals. He is a gentleman. He says to us that Romney had told him that.

Now, they have to stop passing the buck somewhere. It has to be an accountability to someone. They are not accountable to us.

Senator FONG. These 70 cases you referred to may be included in these 750 cases, which have been given to the FBI.

Reverend DODARO. I would doubt it. I think they went into the rotary file because we have had no response to these.

Senator FONG. They are investigating 750 cases.

Mrs. CINCOTTA. Probably investigating most of us in the audience, too.

Reverend DODARO. How many homes were repossessed last year? It was 30,000. How many of those did he investigate that were riddled with violations and that is why the people had to lose the homes. How many of those were investigated? They didn't investigate them. They give us a 131 number. We don't know what a 131 number is. I can tell you Joe Blow from Kokomo loses his house, but I cannot tell you what his 131 number is. They tell us once a case is closed, it is dead. It is in your basement here somewhere, and I would like to see these cases dug up.

Tell me why those 30,000 homes were that way. Ask Mr. Romney to do that. He has the staff. He has the staff to investigate me and several other people. He ought to have enough to investigate these problems, but they come up with the same thing. It is a disgrace. It is in the files. It is no good. We cannot do anything about it. And we came to you because we cannot go to him. He will not talk to us.

Senator FONG. Are you saying that the 30,000 homes, which were foreclosed, are all Mr. Romney's fault?

Mrs. CINCOTTA. It is not ours.

Reverend DODARO. We ask you to investigate.

Senator FONG. What percent of these 30,000 homes were foreclosed due to Mr. Romney's fault?

Reverend DODARO. That is not my job to know. I am asking you.

Senator HART. One of the things we hope to develop by these hearings is to get a record, and to permit the composition of the record, the stenographer would be helped if we limited speakers to one at a time.

Senator FONG. I agree with you. I agree with the gentleman over there that there have been lax inspections and that may have happened, and Mr. Romney admits there has been fraud, and some of these personnel have not done the right thing.

Now, you give the impression that much of this is his fault, and that is not fair. We want the record to be seen by all of our colleagues in the Senate so we can arrive at a resolution in this problem.

Reverend DODARO. Have you looked at the homes approved by FHA in our area?

We have Mr. Collins from Illinois over in the House looking at the thing. He was appalled to find this, and Senator Stevenson, too, also took a walk through, and several others took a walk through in our neighborhood, and we only showed them a few. They just looked at them and said, FHA approved this?

Let us be reasonable. I am not saying 30,000 were lost because of Mr. Romney, but I bet you there is a good percentage there, and we don't want to dig up skeletons, do we?

We put them in the basement of the Capitol Building so nobody can see them and they can never be dug up. We are asking you to dig them up and find out.

Now, you feel Mr. Romney is being unjustly accused. Fine. Maybe you ought to be the one to spearhead this and say, I want to prove those people wrong. And I guarantee you will not prove us wrong.

Senator FONG. We are going to ask him to look at the record and to submit his remarks.

Reverend DODARO. Don't have him look at the record. Let him give you a record.

Senator FONG. You will have to answer it.

Reverend DODARO. Let your investigative staff look at the record. If he looks at the record, it is going to look beautiful. You look in our record. I will tell you my record as a priest is tremendous. I have never done anything wrong.

Senator FONG. He will look at the record and see what charges have been made against him, and he will answer those charges.

Mrs. CINCOTTA. Are you saying you are having your investigators look into what the charges are and bring the charges forward for Secretary Romney to answer to?

Senator FONG. I do not think our investigators are equipped to do that.

Mrs. CINCOTTA. Somebody has to be accountable.

Senator FONG. If we do investigate, we will be investigating the financial monopolistic side of the problem and many accusations have been made against Mr. Romney for faulty inspections, for various other derelictions of duty, and he should have a chance to answer so we can get the true story.

We want to hear your side and we want to hear his side.

Mrs. CINCOTTA. I would personally invite you to come into some of our communities and look at these homes, yourselves, so when Mr. Romney comes you can say, I, Mr. Fong, saw these homes. What are you going to say to George Romney about them?

Senator FONG. I think Mr. Romney has admitted that there have been quite a lot of faults in the FHA. Let him see what he can pinpoint, his answers to these questions and to the problem.

Reverend DODARO. All he has to do is look in the mirror and he sees the problem. He is incompetent to do his job. If the man on top cannot police the men underneath him, then he has a problem. If I could become a pastor, and I have six men under me, I will police them. That is what we are asking him to do. He is incompetent to do that, and we come to you and say that you should look into it.

Mrs. CINCOTTA. We have a problem, as you have. What we would like to do is thank Senator Hart for having us here. We are urging you to investigate these cases, investigate our charges, subpoena Secretary Romney in. I know there are more members on the committee than are here right now.

Senator FONG. We do not subpoena members of the Cabinet.

Mrs. CINCOTTA. All right, whatever you have to do to him, get him in here, and all the testimony that we have given today should be given to the members, and I hope that there are not many George Romney supporters on the committee.

Our intention is to go to every committee that will listen to us, to keep presenting our cases, and build our national organization, the watchdog, and make sure something happens that is good for the people in the cities and the urban centers. That is what we are going to do, and we are going to be watching what you people do. Somebody up there better do something for the people pretty fast or we are going to end up with more riots like we had before. We are tired of being pitted one against the other.

We are tired of seeing our cities burned and of the riots and abandoned houses through collusion of the money interests. We want action. We thank you for your time. Please do something.

Senator FONG. You may rest assured that the Republicans are a minority on this committee.

Senator HART. I just want to thank each of you for coming. I promise you we will do our best.

We will recess now until 2 o'clock.

(Whereupon, a luncheon recess was taken at 12:35 p.m. Testimony resumes on p. 56.)

Materials Relating to Testimony of National People's Action on Housing

Letter to Senate Antitrust Subcommittee From Denver Urban Renewal Authority Dated May 26, 1972

DENVER URBAN RENEWAL AUTHORITY,
Denver, Colo., May 25, 1972.

HON. PHILIP HART,
Senate Office Building,
Washington, D.C.

DEAR SENATOR HART: I am enclosing a copy of an article which appeared in the May 1, 1972 issue of the Denver Post. Both the Commissioners of this Authority and I were disturbed to read Mrs. McKnight's statement concerning

"high rise apartments built through urban renewal programs charge exorbitant rents making them unavailable for the poor people they replace."

I discussed this with Mr. Jack Blum of the Antitrust Monopoly Subcommittee and he suggested I send a letter directly to you. In addition to this letter, I am enclosing a xerox copy of a report which I prepared sometime ago on Housing Development on Urban Renewal Land in Denver. On the third page summary sheet, you notice that over 1800 units of housing have been or are being developed on urban renewal land in Denver. All of these housing units were constructed under special FHA programs aimed at meeting the housing needs of low income and moderate income families.

Note on page 2 that some of these housing units rent for as low as \$40 per two bedroom apartment. All of the housing constructed on land sold by the Authority was financed under the FHA 221 (d) 3, 236 or 235 programs. This Authority is committed to providing housing for poor and assisting minority groups in the sponsoring of low income housing for their specific needs.

Project 6 listed in the enclosed report was constructed under the 221 (d) 3 program and sponsored by the Community AFO Methodist Episcopal Housing Operation, a corporation established by a predominately black church. The architect for this development was Mr. Bertrom Bruton, one of the nation's outstanding black architects.

Project 7 listed in the attached report consists of 24 housing units under the FHA 221(d) 3 on lands sold to the Campbell AME Church by the Denver Urban Renewal Authority. This project was also designed by Mr. Bruton and is housing for low income people under the rent supplement program.

Project 13 of the enclosed report is the Tri-State Buddhist Church Development of the predominately Japanese-American Church and was designed also by Mr. Bruton and will provide housing for low income, elderly people.

Project 15 of the enclosed report is the Coronado Plaza Development sponsored by the Good Americans Organization, a Mexican-American group. This will provide 120 housing units under the FHA 236 program with approximately 40 percent under the rent supplement program. All of these projects are constructed on land provided for the specific uses by the Denver Urban Renewal Authority.

We feel that Mrs. McKnight's statements are entirely untrue and we would appreciate it if this letter and report on Housing Development on Urban Renewal Land, a copy of which is enclosed, be presented to the Subcommittee on Antitrust and Monopoly of the Senate Judiciary Committee so that the record concerning the Denver Urban Renewal Authority program and its efforts to provide housing for low and moderate income people will be on the committee's records.

If you have any questions concerning this matter, please feel free to contact me.

Sincerely,

J. ROBERT CAMERON,
Executive Director.

Enclosures.

HOUSING DEVELOPMENT ON URBAN RENEWAL LAND

(Presented by J. Robert Cameron, executive director, Denver Urban Renewal Authority)

PROJECT 1

1 Bedroom—\$95-\$109; 2 Bedroom—\$118-\$145; 3 Bedroom—\$138-160.

PROJECT 3

Efficiency—\$102; 1 Bedroom—\$126; 2 Bedroom—\$144; 3 Bedroom—\$168.

PROJECT 5

Rent supplement

1 Bedroom—\$34; 2 Bedroom—\$40.

Below market rate

1 Bedroom—\$114; 2 Bedroom—\$134.

Regular rate

1 Bedroom—\$195; 2 Bedroom—\$226.

PROJECT 6

Efficiency—\$108; 1 Bedroom—\$134; 2 Bedroom—\$153; 3 Bedroom—\$179.

PROJECT 7

Efficiency—\$103; 1 Bedroom—\$128; 2 Bedroom—\$146; 3 Bedroom—\$170.

PROJECT 14

Rent supplement

1 Bedroom—\$34; 2 Bedroom—\$40.

FHA 236 program

1 Bedroom—\$114; 2 Bedroom—\$134.

Under the FHA 236 Program the tenants will pay 25% of their income or the FHA amount, whichever is greater. On the rent supplement the government makes up the difference between that rate and the FHA rate.

Each amount varies with each individual situation.

SUMMARY

Skyline project

Total Number of Units—1,206 + 400 Room Hotel; Total Estimated Development Cost—\$43,739,900.00.

Whittier project

Total Number of Units—82; Total Estimated Development Cost—\$954,300.00.

Avondale project

Total Number of Units—544 + 100 bed convalescent home; Total Estimated Development Cost—\$6,617,800.00.

PROJECT 1

AVONDALE PROJECT

(Parcels C, D-1, D-2, and D-3)

Proposals submitted by.—Frederick R. Ross Company; Heffler Construction Company; Garret-Bromfeld; Van Schaack and Company.

Award made to.—Colfax Terrace West, Inc.

Development team.—Van Schaack and Company; Mid-West Redevelopment Corporation; Max Ratner & Charles Sink architects.

Sponsor.—Avondale Redevelopment, Inc.

Project name.—Colfax Terrace West, Inc.

Development breakdown

Development cost.—\$5,259,000.

Number of units.—Garden Level—124 Units; Hi-Rise Structures—349 Apartments.

Financing.—Gardel Level 221d3; Hi-Rise 221d3.

Land price.—\$209,253, \$.50 p.s.f.

Award.—Pre-determined price for the land with award based on design and use 30-day advertising period prior to making award to solicit other proposals.

PROJECT 2

AVONDALE PROJECT

(Parcel 06-09)

Proposals submitted by.—T. S. Corporation.

Award made to.—T. S. Corporation.

Development team.—Henry Toll.

Project name.—Sherlock Homes.

Development breakdown

Development cost.—\$164,800.

Number of units.—12—2 bedrooms.

Financing.—FHA 221d3.

Land price.—\$23,000, \$.64 p.s.f.

Award.—Pre-determined price for the land with award based on design and use 30-day advertising period prior to making award to solicit other proposals.

PROJECT 3

AVONDALE PROJECT

(Parcels 05-05, 05-12, 07-16, 08-15, 08-19, 11-16, and 29-12)

Proposals submitted by.—Good Americans Organization, Inc.

Award made to.—Good Americans Organization, Inc.

Development team.—Good Americans Organization, Inc.

Project name.—G.A.O. Homes, Inc.

Development breakdown

Development cost.—\$450,000.

Number of units.—44.

Financing.—FHA 221d3.

Land price.—\$51,200, \$.47 p.s.f.

Award.—Pre-determined price for the land with award based on design and use 30-day advertising period prior to making award to solicit other proposals.

PROJECT 4

AVONDALE PROJECT

(Parcels 35-02 and 35-03)

Proposals submitted by.—Mil-Rose Investment Company; 1500 Hooker Corporation.

Award made to.—1500 Hooker Corporation.

Development team.—1500 Hooker Corporation.

Project name.—Avondale Convalescent Center.

Development breakdown

Development cost.—\$500,000.

Number of units.—100 Bed Convalescent Home.

Financing.—Conventional.

Land price.—33,912 square feet—\$21,500, \$.60 p.s.f.

Award.—Pre-determined price for the land with award based on design and use 30-day advertising period prior to making award to solicit other proposals.

AVONDALE PROJECT

(Parcel 07-13)

Proposals submitted by.—Cheltenham Heights, Inc.

Award made to.—Cheltenham Heights, Inc.

Development team.—D. C. Burns Realty Company.

Project name.—Town View Annex.

Development breakdown

Development cost.—\$244,000.

Number of units.—25.

Financing.—FHA 221d3.

Land price.—\$24,000, \$.14 p.s.f.

Award.—Pre-determined price for the land with awarded based on design and use 30-day advertising period prior to making award to solicit other proposals.

WHITTIER PROJECT

(Parcels 05-D-02, 05-D-10, 06-D-01, 06-D-23, 12-E-09, 26-B-09, and 29-E-07)

Proposals submitted by.—Shorter Community A.M.E. Housing Corporation.

Award made to.—Shorter Community A.M.E. Housing Corporation.

Development team.—Shorter Community A.M.E. Housing Corporation, Bertram A. Bruton, Architect.

Project name.—Shorter Arms.

Development breakdown

Development cost.—\$435,000.

Number of units.—43 Units.

Financing.—FHA 221d3.

Land price.—\$23,700, \$.34 p.s.f.

Award.—Price for the land based on FHA feasibility with award based on design and use 30-day advertising period prior to making award to solicit other proposals.

WHITTIER PROJECT

(Parcel 31-E-01)

Proposals submitted by.—Strauss Enterprises, Inc.; Campbell Chapel A.M.E. Church Housing Corporation.

Award made to.—Campbell Chapel A.M.E. Church Housing Corporation.

Development team.—Campbell Chapel A.M.E. Church Housing Corporation, Bertram A. Bruton, Architect.

Development breakdown

Development cost.—\$278,300.

Number of units.—24 Units.

Financing.—FHA 221d3.

Land price.—73,905 square feet—\$18,000, \$.24 p.s.f.

Award.—Pre-determined price for the land with award based on design and use 30-day advertising period prior to making award to solicit other proposals.

PROJECT 8

WHITTIER PROJECT

(Parcel 43-B-15)

Proposals submitted by.—Manual High Realty.

Award made to.—Manual High Realty.

Development team.—Manual High Realty.

Development breakdown

Development cost.—\$16,000.

Number of units.—1.

Financing.—Conventional.

Land price.—4,737 square feet—\$900, \$.18 p.s.f.

Award.—Pre-determined price for the land with award based on design and use. 30-Day advertising period prior to making award to solicit other proposals.

PROJECT 9

WHITTIER PROJECT

(Parcels 16-E-06, 27-B-08, 28-B-07, 28-B-14, 42-B-03, and 43-B-15)

Proposals submitted by.—Rev. Acen L. Phillips, Berne, Inc.

Award made to.—Berne, Inc.

Development team.—Berne, Inc.

Development breakdown

Development cost.—\$100,000.

Number of units.—6 single family dwellings.

Financing.—FHA 203.

Land price.—\$5,400, \$.18 p.s.f.

Award.—Pre-determined price for the land with award based on design and use. 30-Day advertising period prior to making the award to solicit other proposals.

PROJECT 10

WHITTIER PROJECT

(Parcels 28-B-19, 38-B-13, 38-B-17, 42-B-05, 43-B-10, 02-E-01 N1/2, 02-E-21, and 03-E-17)

Proposals submitted by.—Robert L. Graves; Bishop Homes, Inc.; William Grant.

Award made to.—Robert L. Graves.

Development team.—Robert L. Graves.

Development breakdown

Development cost.—\$125,000.

Number of units.—8 single family dwellings.

Financing.—FHA 220.

Land price.—56,702—\$13,050, \$.24 p.s.f.

Award.—Pre-determined price for the land with award based on design and use.
30-Day advertising period prior to making the award to solicit other proposals.

PROJECT 11

SKYLINE PROJECT

(Blocks 02 and 12)

Proposals made by.—Volunteers of America.

Award made to.—Volunteers of America.

Development team.—Volunteers of America.

Project name.—Sunset Park.

Development breakdown

Development cost.—\$4,635,000.

Number of units.—242 Residential Apartments.

Financing.—FHA 236 program.

Land price.—96,800 sq. ft. @ \$1.38 p.s.f., \$133,100.

Award.—Predetermined price for the land with award based on design and use.
30-Day advertising period prior to making award to solicit other proposals.

PROJECT 12

SKYLINE PROJECT

(Blocks 05 and 09)

Proposals made by.—Larimer Place, Ltd.; Mariner Colorado Group; Transcontinental Colorado Corp.

Award made to.—Larimer Place, Ltd.

Development team.—John & Dana Crawford—Larimer Square; Henry Perry—Lehman Brothers; R T K L—Architects.

Project name.—Larimer Place.

Development breakdown

Development cost.—\$30,000,000.

Number of units.—387 Luxury Apartments; 400 Unit Hotel.

Financing.—Conventional.

Land price.—154,800 sq. ft. @ \$5.00 p.s.f., \$774,000.

Award.—Predetermined price for the land with award based on design and use.
Once the Offer to Negotiate is accepted, there will be a 120-day negotiation period.
prior to signing the Redevelopment Contract.

PROJECT 13

SKYLINE PROJECT

(Block 13)

Proposals made by.—Tri-State Buddhist Church Apartments, Inc.

Award made to.—Tri-State Buddhist Church Apartments, Inc.

Development team.—Tri-State Buddhist Church Apartments, Inc. Bertram A. Bruton—Architect.

Development breakdown

Development cost.—\$3,911,400.

Number of units.—198 Residential Apartments.

Financing.—FHA 236 Program.

Land price.—13 A, B—79,900 sq. ft. @ \$1.85 p.s.f., \$147,800; 13 D—13,300 sq. ft. @ \$3.10 p.s.f., \$41,000.

Award.—Predetermined price for the land with award based on design and use.
30-Day advertising period prior to making award to solicit other proposals.

PROJECT 14

SKYLINE PROJECT

[Parcels 15C and E]

Proposals made by.—Urban Housing Associates, Ltd.

Award made to.—Urban Housing Associates, Ltd.

Development team.—Urban Housing Associates, Ltd., Maxwell L. Saul—Architect.

Project name.—Skyline apartments.

Development breakdown

Development cost.—\$2,183,500.

Number of units.—142 Residential Apartments.

Financing.—FHA 236 Program.

Land price.—57,775 sq. ft. at \$1.30 p.s.f., \$75,000.

Award.—Predetermined price for the land with award based on design and use.
30-day advertising period prior to making award to solicit other proposals.

PROJECT 15

SKYLINE PROJECT

(Block 01)

Proposals made by.—Good Americans Organization.

Award made to.—Good Americans Organization.

Development team.—Good Americans Organization, Miles Lantz, Architect.

Project name.—Coronado Square.

Development breakdown

Development cost.—\$1,260,000.

Number of units.—121 Residential.

Financing.—FHA 236 Program.

Land price.—48,400 sq. ft. at \$1.85 per sq. ft. = \$89,540.

Award.—Predetermined price for the land with award based on design and use.
30-day advertising period prior to making award to solicit other proposals.

PROJECT 16

SKYLINE PROJECT

(Parcel 14-A)

Proposals made by.—Ross B. Hammond Company; Urban Housing Associates; Listrar; Whittaker Corporation; Manzaneros Construction Company; Facilities Planning and Development Company; Mount Gilead Housing.

Award made to.—Ross B. Hammond Company.

Development team.—Ross B. Hammond Company, Campbell-Yost-Grube and Partners.

Project name.—Columbia View Manor.

Development breakdown

Development cost.—\$1,750,000.

Number of units.—116 Residential.

Financing.—FHA 236.

Land price.—52,000 sq. ft. at \$1.50 sq. ft. = \$76,500.

Award.—Predetermined price for the land with award based on design and use. 30 day advertising period prior to making award to solicit other proposals.

[From the Denver Post, Monday, May 1, 1972]

REALTORS, "BUREAUCRATS" ACCUSED OF CHEATING POOR

DENVER HOUSING FOR MINORITIES

WASHINGTON, D.C.—Denver real estate operators working "hand in hand with government bureaucrats" are cheating poor Chicanos and blacks in federal aid housing programs, it was charged here Monday.

Mrs. Gloria Lopez McKnight, a spokesman for the Latin-American Coordinating Council, Inc., leveled the attack at Denverites in wide-ranging testimony on housing for the poor before the Senate's antitrust and monopoly subcommittee.

CONFERENCE HELD

Mrs. McKnight, of Detroit, Mich., listed Denver among several cities in which, she said, research data was gathered last October during a conference on "Mexican-American housing patterns" at Albuquerque, N.M., a conference sponsored by the Department of Housing and Urban Development (HUD).

In her statement to the subcommittee headed by Sen. Philip Hart, D-Mich., Mrs. McKnight said that "the time is long overdue for this nation to rearrange its priorities and address itself to human needs."

Evidence has been developed in Denver, Mrs. McKnight said, of "low-grade materials and workmanship in construction of homes for the poor under current housing programs, such as 235 (the federal housing plan for low-income families)."

In Denver, Mrs. McKnight charged, "Realtors working hand in hand with government bureaucrats exploit the people. At first, the Realtors used the plan (235) to sell older homes that were in disrepair.

"Following a recent investigation of 235, Realtors have begun to market newer homes, just as poorly built or worse than the older homes."

Using Denver as an example, Mrs. McKnight said that the federal government ought to set higher building standards "so that homes sold under 235 may be guaranteed to last 20 or 30 years."

CHARGES ECHOED

The witness, echoing charges made repeatedly in Denver, said that high-rise apartments built through urban renewal programs "charge exorbitant rents, making them unavailable for the poor people they replace.

AFTERNOON SESSION

Senator HART. The committee will be in order.

We will depart from the witness schedule. We will hear next from Mr. Franklin Thomas.

Mr. Thomas, will you rise and be sworn?

(Whereupon, the witness was duly sworn by the chairman.)

Senator HART. Mr. Thomas, we will order printed in the record, in full, your prepared statement. As you go along, if there is any footnoting you care to do or skipping, feel free to do it.

TESTIMONY OF FRANKLIN THOMAS, PRESIDENT, BEDFORD STUYVESANT RESTORATION CORP.

Mr. THOMAS. Thank you very much.

Mr. Chairman and members of the staff and the subcommittee, my name is Franklin Thomas. I am president of the Bedford Stuyvesant Restoration Corp., and I have held that position since the inception of the corporation in 1967.

I am here this afternoon, pursuant to an invitation of the subcommittee, extended by yourself, Mr. Hart.

I have been asked to describe the Restoration Corp. and the mortgage program we developed for the benefit of the residents of our area. I would like to begin by describing a little bit about Bedford Stuyvesant.

New York City is divided into five boroughs, one of which is Brooklyn, and a part of the borough of Brooklyn is known as Bedford Stuyvesant. We think of it as a city. It has 450,000 people living on approximately 650 square blocks which cover about 9 square miles. The population of Bedford Stuyvesant is largely black: about 85 percent black, about 10 percent Puerto Rican, and 5 percent white. According to the statistics I read, it is the second largest predominantly black community in the country.

In 1967 when our corporation began its work, Bedford Stuyvesant was characterized by all of the problems which we know are plaguing our cities.

Its infant mortality rate was twice the national average, juvenile delinquency over twice the New York City rate, and 7 out of 10 of its high school students would either not complete high school or, if they did they would graduate with the kind of diploma that did not equip them to go on to higher education. Unemployment was almost twice the national average; nearly a third of the families in Bedford Stuyvesant lived on annual incomes of \$3,000 or less.

The area was overcrowded and deteriorating. The housing was inadequate. Educational opportunities were substandard. Health and sanitation conditions were bad. In short, the free enterprise system was not working in Bedford Stuyvesant as it was working in other parts of America. Very little—if anything—was being done to correct the situation, and the residents were without hope. The common denominator was poverty. Overall, Bedford Stuyvesant presented a classic example of the urban decay which is blighting our cities.

Restoration and its sister corporation, the Bedford Stuyvesant D. & S. or Development and Services Corp., are both nonprofit corporations organized in 1967 through the efforts of the late Senator Robert F. Kennedy. The purpose behind these corporations is to implement a new approach in trying to solve the problems of the inner cities.

Begun as a pilot demonstration directed toward a specific area, the program conceived by the late Senator was to provide a model for urban redevelopment throughout the entire country. The goal was the total physical, social, and economic rehabilitation of Bedford Stuyvesant. The program proposed to turn Bedford Stuyvesant around, from a decaying area into a going city. Part of the mechanism was the infusion of large amounts of capital into this specific geographic area through programs affecting every aspect of the community's life.

More importantly, the residents of Bedford Stuyvesant would have a controlling voice in every decision that affected their lives, and each program would be developed so that the residents could continue it on their own as soon as outside aid was no longer necessary.

In addition, each program was to be planned as one piece of a total effort that would combine job training, job development, capital formation, credit, housing improvements, education, communication, and the social welfare of the people themselves.

Although the basic problem of Bedford Stuyvesant is and was one of poverty, the program that evolved from the two corporations is not one through which money is simply pumped into a community and consumed as a stopgap measure. Rather, the money was placed in programs to build for the future—to build toward a self-sustaining community with income-producing projects to be developed and existing ones expanded.

The partnership between Restoration and D. & S. is an attempt to coordinate the tremendous human resources and desires of the people of Bedford Stuyvesant with the technical and financial resources of the private sector of New York.

Restoration initiates and directs projects. Through its staff it looks at the conditions that exist and tries to design programs attempting to eliminate and eradicate those conditions which need to be eliminated. Its board members are local residents, and the chairman is the State Supreme Court Justice Thomas Jones, who, like myself, is a lifetime resident of Bedford Stuyvesant.

The D. & S. Corp., the sister group, encourages business development and investment in the area and provides business assistance. Its board members are largely business executives, and its chairman is Mr. Benno C. Schmidt, who is the managing partner of J. H. Whitney. The president of D. & S. is John Doar, who is a former assistant attorney general of the United States. The corporations are jointly funded through the special impact program of OEO, along with contributions from foundations, private business, and individuals.

While the programs of Restoration cover a wide range of community needs—they cover business development, job development, education and the like. For this afternoon's discussion, I am going to focus specifically on the housing programs, and then the relationship of the mortgage effort to that housing strategy.

Restoration's mortgage pool is actually only one aspect of a comprehensive housing program, the essential goal of which is to help improve the quality and increase the number of housing units in Bedford Stuyvesant. Our housing strategy has really three specific aims. First, we try to figure out how to preserve and stabilize the existing housing stock which is in reasonably good shape. Secondly, we try to keep it that way by repairing and rehabilitating the abandoned buildings which exist throughout Bedford Stuyvesant. And, finally, for those buildings which are beyond hope, we try to replace them with new housing units.

Essential to the strategy is our belief that the process of developing a housing unit itself must confer benefits. That is, it would be inappropriate and inconsistent with our programs to say we have a need for *X* number of housing units. Therefore, we will go through government or other sources, bring in outside developers to build those housing units, and then turn them over to the community saying in effect, OK, here are the housing units you need.

What we believe is that the process of developing units, the land assembly, the architects, the workers, the general contractors, the purchase of supplies, all of that should benefit the people in Bedford Stuyvesant because the building process is an industry, and it is critical that this process result in some benefits to the residents of our area.

For example, in our exterior renovation program which helps us preserve existing housing, we hire and train unemployed local residents to paint exteriors and to repair sidewalks, iron gates, fences, and front doors of homes in the community. In addition, we encourage community organization by requiring homeowners to form block associations in order to participate in this program. Finally, each participating homeowner is required to promise to not only maintain the exterior, but to make interior improvements as well and to use local labor in the process.

The mortgage program operates to preserve existing sound housing in an equally fundamental way.

The bulk of the existing housing stock in Bedford Stuyvesant consists of 1-to-4 family dwellings, and a fair percentage of these buildings are owner-occupied. We estimate about 20 percent. Resident ownership is important to our community, as it is to any community. Homeowners have an interest in the community and the incentive to make improvements. Mortgage financing is essential to home owner-

ship, both for the initial purchase of the home, as well as for making major improvements and meeting major maintenance expenses.

However, prior to Restoration's involvement in the area of home credit, mortgage loans on reasonable terms for small or medium size residential properties were not available in Bedford Stuyvesant as they were in other areas. The volume of FHA insured loans was very low. The area was, as you have heard the term is used often enough—redlined by both FHA and most banks. That is, the institutions were not willing to make home loans in the area.

The mortgage loans that were available were obtainable at very high effective interest rates. The pattern of financing that emerged usually involved several concurrent mortgages on a single home, with very short payback periods. For example, a family that desired to purchase a home for \$18,000 with \$2,000 down, would pay in effect, \$25,000 for that home because the points for percentages of the mortgage amount would be added to the purchase price.

The example which I have illustrated in the prepared text is only one way that this works. After the downpayment was made, for the remaining indebtedness (instead of being able to get a 25-year long-term mortgage to cover the \$16,000 involved), the family would in fact find itself saddled with a first mortgage covering roughly two-thirds of the balance, payable in 10 years, and then a second mortgage covering the remaining third, usually payable in 5 years.

In order to get that financing, the family would have had to pay anywhere from 10 to 20 points, or 10 to 20 percent of that debt. And it's that amount of money—the points—which would have brought an \$18,000 purchase to a \$20,000 purchase for that family. Assuming that you had an interest rate of about 6 percent on each of these loans in 1967, the family would have had to pay \$249 per month for principal and interest alone.

In contrast, if they had been able to get a \$16,000 loan for 25 years, the cost to the owner would have been approximately \$103 a month. This does not include real estate taxes, heating or other operating costs, because these would be the same in either interest.

With all their savings gone toward the down payment, the family would be unable to maintain the property properly. They would have had to take in single room occupants to provide additional income, or partition their home into tiny apartments. Increased traffic in a building generates an increased need for maintenance and repairs, and since there would be fewer dollars to make those repairs, the quality of the property would start to go downhill in short order.

Even those homeowners who were fortunate enough to build up some equity in their home over a period of years were really not much better off. Without mortgage money to refinance the present indebtedness on the property on reasonable terms, their equity was in effect frozen. Despite their equity, they were not able to borrow to make costly repairs and improvements, and thus the property continued downhill. It was a recognition of these and similar deficiencies in the home credit market that encouraged Restoration to seek to enter the field of home credit financing.

In the fall of 1967, Restoration, with the aid of some of the members of the D. & S. board, convened a meeting with representatives of the major banks and insurance companies in New York City to en-

courage these financial institutions to commit money for residential mortgage loans for Bedford-Stuyvesant residents. We presented to them the total development plan that we had for Bedford-Stuyvesant and explained that it was a plan supported by the residents of the area, by the Federal Government through the special impact program, by foundations and others interested in trying to find solutions to the problems of urban decay.

We asked the banks and insurance companies, in effect, to commit a certain sum of money to Bedford-Stuyvesant for home credit. Most of them were not making loans in the area at that time, in part because the state of the mortgage market was such that they could place their money in other areas which were more prosperous and which presented as they described it, fewer risks.

We pointed out that the proposed mortgage program would itself contribute to a reduction in the high risk status of the area, and thus help convert Bedford-Stuyvesant into a community which would be more attractive to conventional mortgage financing.

After several meetings and a tour of the area by the bank and other high officials in the institutions, a group of 80 banks and nine insurance companies agreed, in principle, to pool from their respective resources approximately \$65 million for a mortgage program in Bedford-Stuyvesant for 4 years.

The terms of the program were as follows:

The funds committed to the program would be used exclusively for FHA insured mortgage loans to purchase, refinance or rehabilitate one- to four-family residences located in Bedford-Stuyvesant. These residences would have to be on streets that did not contain a substantial number of abandoned buildings; they had to be on streets that were used primarily for residential purposes, so we excluded the commercial streets; they had to be on streets where condemnation by the city of New York was not expected; and on streets where a substantial number of the residences were owner occupied.

The institutions agreed that all the loans would be made at par and not at a discount; thus, the borrower would receive the face amount of his note, subject only to the fees that were permitted by FHA regulations.

All loan applications were to be processed by the Restoration Corp. until a firm commitment for mortgage insurance was obtained from the FHA. Restoration would then refer the FHA approved applications to one of the participating institutions for the mortgage loan closing.

Now, this was important to us because here, as in all other programs, we operate, we wanted to create local capacity. Just as I described earlier that the process of developing housing is critical to any community's survival, we felt that the creation of a local instrument which could handle the processing of mortgage loan requests was important to the future of Bedford-Stuyvesant.

To assist us in getting the program started, two of the major banks participating in the pool contributed personnel to train our staff on how to process FHA loan applications. In addition, one of the banks from the pool volunteered to execute all commitment applications processed by our mortgage department, since the FHA will accept applications only when originated by a lender it has formally approved.

It was contemplated that after Restoration developed the capacity and experience in mortgage processing, that Restoration itself would apply to become an approved FHA mortgagee and thus be able to originate and close the loans itself. Restoration could, after the closings, then assign the closed loans to the financial institutions participating in the pool.

This was the set of ground rules under which the mortgage pool began. This was the understanding we all had, and this is how we got underway in May of 1968.

It was anticipated that when the mortgage program was formally announced and our doors were open, the residents of Bedford-Stuyvesant would inundate our facilities in order to obtain the low-cost mortgage money being made available, particularly those residents who needed refinancing in order to clear up heavy first, second and sometimes third mortgages on their property. The anticipated run for mortgage money just did not occur, and the reasons for this soon became clear to us.

Shortly after the pool was formally announced to the public, local real estate brokers were advised by us that, in light of the fact that our purpose was to encourage home ownership and repair, all unnecessary fees were being discouraged. Thus, the mortgages were being offered at cost by the lenders, and in cases where there was a refinancing, the broker would not be entitled to a fee for merely telling someone to go to Restoration to file an application. Well, the brokers objected strenuously to these conditions.

Several fruitless meetings were held between ourselves and the brokers in an effort to resolve the differences that had set in. We pointed out to the brokers that they would still earn their broker's fees on sales of property, and that the ready availability of home credit on reasonable terms should stimulate the sales market.

Notwithstanding our efforts, the brokers remained hostile to the program, and generally refused to cooperate with it. They brought neither their purchase nor their refinancing matters through our mortgage program. Instead, they continued to steer their customers to the various funding companies where substantial discounts had to be paid by owners or purchasers in order to obtain mortgage money. This practice on the part of the brokers became a significant obstacle, and had a direct negative bearing on our mortgage pool's volume.

The second related problem was that of how to reach the residents of Bedford-Stuyvesant and tell them of the existence of the pool and its low-cost mortgage money. Toward that end, the corporation undertook a publicity campaign in 1968 which included radio and newspaper ads, interviews, speeches at local churches and block associations, fliers, brochures, and matchbook covers, all announcing our program. In addition, some of the local banks and utilities were asked to mail out fliers along with their monthly statements to customers in the Bedford-Stuyvesant area.

Our publicity efforts were meaningful and generally worthwhile. There usually was a dramatic increase in the number of applicants during and shortly after a publicity campaign. Our daily log indicated that most applicants had heard of the mortgage program from one or more of our publicity efforts.

In 1968, and as I said we began about the middle of the year, the corporation closed 56 loans with a total volume was \$771,000 approximately. For 1969, 218 loans were closed, totaling approximately \$3.6 million.

In 1970 we closed 244 loans, totaling \$4.6 million roughly, and in 1971, 159 loans, totaling about \$4 million.

We think the 1971 figure, which is lower than 1970, is probably a reflection of the general economy, at least in the Northeast region, because we noticed a decline in the number of mortgages written, generally, in Kings County.

On the whole, we were satisfied with our advertising—that it was reaching a large segment of the Bedford-Stuyvesant community. But it was also clear that advertising alone would not raise our mortgage applications to a volume we originally anticipated. The reason for this involved the traditional role of brokers in real estate transactions.

Traditionally, when people in the community want to buy, sell, or refinance their homes, they go to a local real estate broker, who in turn directs them to a mortgage funding source. This role of the broker is so familiar to people in the community that they automatically tend to rely on this service. We realized that unless we could encourage more brokers to allow their clients to benefit from our low-cost mortgage money, we would not be able to help all the persons we had hoped.

Recognizing this fact, in March of 1971 we reached an understanding with the local brokers and local real estate board concerning the applications for mortgages to refinance existing indebtedness on homes in our community.

We agreed to process such applications brought to us by brokers, provided that the broker's fee did not exceed the greater of $1\frac{1}{2}$ points or \$200 for any transaction. It was further agreed that to be entitled to such a fee, the broker would have to perform some service.

The brokers agreed to submit to FHA all documents required by FHA for the issuance of a firm commitment. This understanding was approved by representatives of our participating banks as a fair and reasonable compensation for actual services rendered.

We were hopeful that with the easing of our position, that we would see a significant increase in the number of brokers generating applications. Despite our understanding, we didn't see a significant increase. Rather than using our mortgage program, they still prefer to use the funding companies in the area which some of the brokers have told us enjoy a competitive advantage over us.

For example, it is said that the funding companies can obtain firm commitments from FHA in from 2 to 3 weeks, while it takes us an average of three months to get a firm commitment from FHA.

We do not know the actual processing time for the funding companies, but we are certain that there are no deficiencies in our processing that would justify such a great difference.

It has also been said that funding companies get higher FHA appraisals than we do on comparable homes. Yet these appraisals are supposed to be made by FHA on an entirely objective basis.

We have also been told that the brokers generally find that they can make more money by going the alternate route, through the funding companies, than they can make by going through our mortgage program, even with the liberalized provision of the point and a half or \$200.

In any event, it seems clear that some combination of factors continue to make our mortgage program, with its low cost loans, non-competitive with the funding companies from the point of view of the brokers and, perhaps, some of the institutions as well.

The Restoration mortgage program has been and is tremendously needed in Bedford-Stuyvesant. It is providing a chance for new lives for hundreds of community residents who were assisted either in buying homes or in being relieved from the staggering mortgage payments on first, second, or even third mortgages. It has saved the community roughly a million dollars in points and discounts in the first 4 years of its operation. The mortgage program has proven itself as an essential part of our overall housing strategy for Bedford-Stuyvesant by opening up channels to a previously unavailable source of needed capital to arrest the trend of deterioration and decay of our basic housing stock.

Through a wholly-owned subsidiary corporation, Restoration has now become an approved FHA mortgagee. Thus we are able to originate and close loans in our own name.

It is now possible for Bedford-Stuyvesant residents to obtain mortgage money on good terms in their own community. As the community develops confidence in itself and its institutions, our hope is that a corresponding confidence will be developed and maintained in the banks and insurance companies that participate in our mortgage pool, and in the business community as a whole.

We need the support and active involvement of the usual channels of finance if we are going to make Bedford-Stuyvesant a viable community for its residents.

Thank you.

Senator HART. Thank you, Mr. Thomas.

If we had planned it this way, it would not have worked—that signal means I must vote and I must recess to answer it.

Mr. THOMAS. Thank you.

(A short recess was taken.)

Senator HART. We will be in order.

I made some semilegible notes while you were testifying, but having to go to the floor and come back, I look at the notes and I have to strike the word "semi."

You described the many hundreds of families enabled through the mortgage line of Restoration to either obtain homes or reduce the debt burden on their homes and yet, as I recall your testimony, what you are telling us really is the potential in Restoration hasn't even been approached. As I take it, the reason why you haven't been able to attract the customers who will be benefited by your services is that the real estate agent's first concern is the real estate agent, and not his customer.

Is that a fair statement?

Mr. THOMAS. I think that is accurate. We estimate that, at most, we have penetrated about a third of the market in Bedford-Stuyvesant for the 203B and 221B2 loans, which is the kind we process under section 223E.

What you have, really, are two parallel routes that are open to the broker. In effect, one route through us says that on a refinance, you may earn up to \$200 or a point and a half, and that's a recent concession in the past year by us.

The other route which exists in the community, in effect, says that you and the mortgage company together can earn maybe \$700 on the same transaction because that second route will allow the additional points to be charged the owner or applicant.

I don't want to overstate the role of the broker. I do want to emphasize the negative impact he has on this program and, in my judgment, on the people in Bedford-Stuyvesant. But one of the reasons he is in that position is the availability of these two parallel routes, one of which is so much more attractive to him financially.

Senator HART. But the two parallel routes are the two deals that are available to the buyer?

Mr. THOMAS. That is correct.

Senator HART. And the best deal for the buyer, the best deal for the customer of the broker, is not the deal that the broker is electing. He is testing which is the best deal for him?

Mr. THOMAS. That is correct.

Senator HART. When I put it that way it sounds as though it is wrong on his part. I guess you can argue that. What should be done besides lecturing the broker so that the customer's best interest is more likely to be served?

Mr. THOMAS. Well, I don't have a solution. I will just give you some thoughts I have on it, some observations.

We don't as a society have a great deal of difficulty in imposing some reasonable limits on the amount of interest to be charged on certain transactions.

The truth-in-lending provisions require that even in those cases, which are within the law, you spell out in sufficient clarity for the borrower exactly what it is he is being charged as interest.

It seems that part of the inquiry into the case of "points" has to involve a look at how the secondary market operates through Fannie Mae, which began as a Government agency. Where the originators of paper sell it to Fannie Mae, and Fannie Mae takes it at a discount, they say, in effect, that we won't give you a hundred dollars for a hundred dollars at face value. We will give you \$97.

The originator of the mortgage anticipates what the secondary market situation is going to be; therefore, he really doesn't pay the discount. He moves the discount along to the purchaser of the property or the owner who is refinancing. And he adds a few points to that.

So, I hope this is clear. But what we have is a transfer of a number of fees and points from the secondary market all the way down to the individual least able to afford to pay it—namely, the buyer or the owner seeking to refinance. It seems to me that any thorough-going look at the way the point system operates on mortgage refinancing or mortgage purchase cases must look at the system, including the secondary market.

Now, it may be that we will conclude that these are necessary and reasonable fees, but I don't think we will. We can't avoid looking at the entire spectrum of how the paper flows and point out, in fact, where the costs are being built in, because the points have their origin in the usual financial transaction between the institutions, some of which are Government supported.

It seems to me that we might also determine whether or not the appraisals in the FHA processing are being done for FHA by the real estate brokers in a given community. They have the so-called fee

appraisers, who go out and come back with the appraisal on the property. It seems to me, on the surface at least, that this situation raises a serious question as to the quality of what, and objectivity of what is coming back to FHA.

It seems to me, also, that on the simultaneous transactions where the real estate broker or other speculator has bought the property and held it for a very short period of time, I am not talking years, maybe weeks or months, and is doing a turnaround with FHA tacked on, there ought to be some requirement for disclosures to everyone involved at the very least, perhaps some ceiling on the amount of profit that is allowed in those situations might be considered.

The chart that was attached to one of the papers this morning, I think it was from the Baltimore area, indicated in fair detail, quick turnaround cases. Some appeared to be simultaneous transactions; each appeared to involve at least 100-percent profit in the deal, excluding the points.

Now, it does not seem a far reach for an agency of the Federal Government involved in trying to improve the quality of housing in the country to require more adequate inspection of the property, to look behind the papers that are presented to it, and quite possibly, to consider the kinds of deals that it will not accept in terms of providing insurance.

Beyond that, I think there needs to be a means by which you encourage local organizations, this may sound like a pitch for Restoration, and it is, which are accountable to their particular communities to get into the processes which affect those communities, so that we are not saddled with what we heard this morning in the Chicago case, for example. There, the people who are the most affected, really are completely frustrated and feel that they can in no way intercept or change that program and practices. If the institution that represents them were intimately involved in the process, then they could begin to provide alternate channels through which local residents could get fair and honest service.

This argues very strongly for the creation of locally accountable entities, which have access to the usual sources of financing, for both residences and other types of financing, and which have some direct accountability to these communities.

Senator HART. Earlier in your testimony you said Restoration was funded out of OEO plus private money.

Mr. THOMAS. That is correct.

Senator HART. What is the ratio?

Mr. THOMAS. It's roughly two-thirds Federal, one-third private. The average has been about \$5 million a year Federal money and roughly \$2.5 million of private.

Senator HART. Does Restoration operate solely within Bedford-Stuyvesant, or are you free to operate other places?

Mr. THOMAS. We operate technically in Bedford Stuyvesant. It's a special impact district, and the legislation mandates that you take a defined geographic area and concentrate your resources on improving the quality of life in that area. In this case the area we have is called Bedford-Stuyvesant—roughly 9 square miles.

Senator HART. Have the participating banks in the mortgage pool that you told us about lived up to their money commitments?

Mr. THOMAS. All the indications we have had over the past 4 years have been that the banks are all anxious for us to put the money out. The pressure has been on us from the institutions; why can't you get more volume?

You could say that we were all probably a little naive in not focusing outside of ourselves as to what factors were influencing the low volumes. We assumed we just weren't advertising enough, or we weren't processing rapidly enough, or we just didn't—we weren't adequate in some way.

In point of fact, it was only when we started to look at what existed on a competitive basis outside of our pool that we began to see why two-thirds of the transactions were going around us rather than through us.

The institutions, by and large, have been supportive and, as I mentioned before, have gone into some conventional financing in Bedford-Stuyvesant as the result of the growth of confidence that has taken place through us.

Senator HART. How long have you been operating as a mortgage company?

Mr. THOMAS. Just about 2 months.

Senator HART. Is it too early to tell whether the volume of business will increase substantially?

Mr. THOMAS. It is too early. There is a little bit of fright, frankly, in me and in some of us who have been working on this for a while, that when we reached out a year ago to try and increase the volume by encouraging the brokers to bring their cases to us, we would get some cases that had originated, not through us but in the funding company. The cases would then be assigned to us by the funding company, through the broker. And when the recent revelations came out, we started to get concerned because, in those cases, we really have no way of telling how the appraisal was made or how the credit information was secured in order to get the firm commitment from FHA.

There are some matters now under litigation which suggest that those procedures were not always satisfactory. So we have been a little hesitant recently about taking assignments from funding companies because we can't get to look behind those papers the way we look at cases where the deal originates in our pools.

Senator HART. Mr. O'Leary?

Mr. O'LEARY. Mr. Thomas, with respect to this particular market, you mentioned that some of these institutions were making conventional loans. I assume this was primarily FHA-insured mortgage markets, the Bedford-Stuyvesant area?

Mr. THOMAS. That is correct. It is primarily that.

Mr. O'LEARY. Apart from the Restoration Corp., I assume all buyers and sellers in an FHA-insured transaction must pay points?

Mr. THOMAS. Apart from Restoration; that is correct.

Mr. O'LEARY. Theoretically, I suppose the decision as to where one gets its mortgage money is made either by the buyer or the broker. I assume from your testimony, you were telling, at least your experience has been primarily that decision has been made by the broker?

Mr. THOMAS. That is correct.

Mr. O'LEARY. In your statement you mentioned, in light of the fact that your purpose was to encourage homeownership and prevent all unnecessary fees, they were being discouraged apart from the re-

ferral fee, and I guess I am directing my attention mainly to sales and purchases of houses as opposed to refinancing. What other fees were urged upon you, if any?

Mr. THOMAS. In the sales and purchase?

Mr. O'LEARY. Yes, sir.

Mr. THOMAS. Well, the typical transaction on a sale that would originate with a broker would involve something along the following lines: a seller would want to sell his property and let's say he wants \$18,000 for the house.

He would go to a broker then to list his property. The broker might well say to him, well, there are points involved in the closing in order to get the mortgage financing. So we will have to add the anticipated amount of points to the selling price. So the selling price then, let's say, goes to \$20,000. The broker then goes out and secures a conditional commitment from FHA for that amount of money.

He then seeks a buyer. The buyer comes along and credit checks are done and assume a firm commitment issues. Well, when that loan gets ready to close, if you brought that to our pool, we would look at that and say there are no points on this deal. And the buyer would have to sign a statement with his application to us that he is paying no points to anyone for securing this financing. Well, that would upset or tend to upset the relationship which had been established between the broker and the seller in adding the additional \$2,000 to what the seller originally wanted for his property.

It is conceivable that the buyer could perhaps not know that the points had been added, and so he could sign such a statement and the transaction could go on. Later the money could be divided. But the brokers resisted us initially when we said we would require such a signed statement because, in those cases where it would reveal the fact that points had been added to the purchase price, the broker would jeopardize his relationship with the seller or with the buyer, or the buyer would back out. So, even in the purchase situation, we found ourselves in a situation where points might have been built into the selling price of the property, and in all those instances we just said, no, you can earn your 5-percent commission as a broker, but no points for securing this financing.

Mr. O'LEARY. To your knowledge in the Bedford-Stuyvesant area, do brokers speculate or buy and resell houses, themselves?

Mr. THOMAS. To the best of my knowledge, they did and do.

Mr. O'LEARY. Your competition in that area with respect to funding companies, this would be principally United, Inter-Island, and Eastern Services?

Mr. THOMAS. Primarily, yes.

Mr. O'LEARY. Those are the three mortgage companies?

Mr. THOMAS. There are others out there, but those are the three largest.

Mr. O'LEARY. Is it your understanding that these mortgage companies lend moneys to speculators as well, in order to purchase houses for themselves?

Mr. THOMAS. That's the rumor. I don't have any firsthand information on that, but certainly that is the rumor.

Mr. O'LEARY. That was never a reason specifically advanced to you as to why others went elsewhere other than the Restoration Corp.?

Mr. THOMAS. Not to me, but that's the kind of conversation I heard in the area—that the tie between the broker and the funding company is more than the simple transaction of either the sale, or purchase, or refinancing. That may be the subject of our discussion, the tie is much deeper than that.

Mr. O'LEARY. As I, in rough calculation, total up since 1968, you have lent approximately \$11.9 million out of \$65 million.

Mr. THOMAS. I think it's about 13 something.

Mr. O'LEARY. About 13. How much of that \$13 million is represented by refinancing?

Mr. THOMAS. I would say, roughly, 75-percent refinancing and 25-percent new purchase.

Mr. O'LEARY. It's the new purchase market, which really has been that loss to the funding company?

Mr. THOMAS. I think so, but it is difficult to draw a positive conclusion because Bedford-Stuyvesant people were saddled with first, second, thirds on their property with short payback period. Out of the first 50 or so refinancings, for example, that went through the pool—and I haven't looked at these figures in a long while—the average reduction in monthly payments to that owner ran around \$135 a month. So there was a significant impact on a family to be able to come in and get out from under first, second, and third mortgages.

I don't think we fully appreciated the amount of refinancing need that existed in Bedford-Stuyvesant when we initially set up the pool, or contemplated setting it up because we talked mainly about purchase situations. But in point of fact, we found the refinancing to be critical, and after we thought about it, it made sense. If you were saddled with that kind of debt, you couldn't put in a new bathroom. You couldn't fix up the kitchen. In order to finance anything, you had to do it all on short-term, personal loans, which get discounted in front. Here was a chance to come in and, in effect, unfreeze some of your equity, get out from under the heavy monthly burden, and do some improvements on your property. While we were out fixing the streets and encouraging people to improve property, we ought to have anticipated that they would come in to get refinancing to get out from under their heavy debt and to have some money with which to make repairs.

Mr. O'LEARY. I guess my question really is, in this particular area, has there been a high turnover of homes?

Mr. THOMAS. I think the broker's market has been the sale market. It has not been the refinancing market. He has done that under the 221D2's and 203B's. That is the market that has been excluded in my opinion, just looking at the figures.

Mr. O'LEARY. Thank you.

Senator HART. Mr. Chumbris?

Mr. CHUMBRIS. Thank you, Mr. Chairman.

Mr. Thomas, you have a very excellent statement here that you brought this afternoon. I have just a few questions that I wanted to ask, apart from the questions already asked of you.

Is \$65 million the fund you have working for you?

Mr. THOMAS. Yes, sir.

Mr. CHUMBRIS. How many institutions contribute toward that \$65 million?

Mr. THOMAS. Roughly 80 banks and nine insurance companies.

Mr. CHUMBRIS. Does the subcommittee have the names of the banks and insurance companies that participate in this program?

Mr. THOMAS. I am not certain. If they do not, we will certainly provide it.

Mr. CHUMBRIS. Yes, I think it will be good for the record if we have the list of the names of the institutions. One of the key problems, then, is the real estate broker?

Mr. THOMAS. That is correct.

Mr. CHUMBRIS. You have moved from your original concept to the fact that you are now a mortgagee. Do you anticipate making a further move toward establishing or licensing real estate brokers, who will coordinate that program for the benefit of the residents of that area?

Mr. THOMAS. I don't want to make a prediction, except to say, with the disclosures that are now coming out, I anticipate the community pressure to set up some alternate means of handling real estate transactions—parallel means.

We are a group that is generally responsive to community pressure.

Mr. CHUMBRIS. Under what law do you operate? Under State law?

Mr. THOMAS. Yes. We are a nonprofit corporation under State law.

Mr. CHUMBRIS. Is there anything under State law that would prohibit you from having a license of real estate brokers working within the group?

Mr. THOMAS. Not to my knowledge.

Mr. CHUMBRIS. The real estate brokers who do operate within your area, are they in the immediate neighborhood, or are they spread out throughout the Brooklyn area?

Mr. THOMAS. Their offices, by and large, are within the immediate neighborhood. As for individuals, themselves, some live in the area and some live outside.

Mr. CHUMBRIS. When we had our hearings in Boston last September 13, 14, and 15, I believe, we had a similar problem in Boston. It didn't quite go as far as the problem here this morning, but the problem of block busting and people buying excessively high considering the price some have paid for the property, et cetera. In that instance, the real estate brokers there were a combination of black and white. There might be some white, some black brokers. Is that the same situation you have here?

Mr. THOMAS. Yes.

Mr. CHUMBRIS. We had some testimony in Boston relating to the letter of approval from the Department of Justice. Could you comment on that, briefly?

Mr. THOMAS. Yes. Prior to setting a pool in motion in Bedford-Stuyvesant, we asked, that is Restoration asked the Justice Department, on behalf of the institutions that would be participating in the pool, to, the effect, approve the arrangement as not being in violation of a 1948 decree that the Antitrust Division had secured.

We wrote to the Justice Department, and sent with that letter a full description of the mortgage pool and how it proposed to operate. We received a letter back from the Justice Department indicating that it had no objection to the banks participating in our pool in the manner described.

Mr. CHUMBRIS. In the situation that we had in Boston, I believe the banks that participated and the insurance companies, whoever the lending institutions were, had a fund of about \$29 million. To be consistent with the requests from the city of Boston, they picked a particular area of Boston so there was sort of an invisible red line drawn around the area that the loans could be given for the purchase of homes. That was one of the antitrust questions that this subcommittee felt needed to be inquired into.

I notice the chairman asked you the question, did you loan outside of the Bedford-Stuyvesant area. You said, no, because you are committed to that. Is that under the authority the State gave you?

Mr. THOMAS. That is under the authority of the special impact program and our own charter, which commits us to Bedford-Stuyvesant. Technically, it is "in or near", so there are some loans on the periphery that we made. Essentially, however, all of our programs are concentrated within the area we described as Bedford-Stuyvesant. That area was set up well in advance of our arrangement with the bank to secure mortgage funding. The banks really responded to our request. They didn't dictate to us the boundaries for the implementation of the program.

Mr. CHUMBRIS. I recall in Boston there was quite a bit of discussion, both from our end of the bench, as well as in some of the witnesses, that people who may have lived two blocks beyond the so-called redline could not obtain loans, and they were highly critical of it. And I believe some of the witnesses this morning made the same complaint. They had just been 2 blocks away. If they were not, they would have a different situation. Under your situation, you would have to be guided by that area?

Mr. THOMAS. That is correct.

Mr. CHUMBRIS. As you say, you might deviate just a little bit, if it wasn't too far away, trying to stick primarily within that area?

Mr. THOMAS. That's right. To my knowledge, I would say that by participating in our pool, no institution thereby excludes any other area; in other words, they are still free to make loans in other areas.

Mr. CHUMBRIS. Now, the reasoning behind not going beyond the redline in Boston was the fact that these people said, we only have so much money, \$29 million to loan. If we went beyond the line, then it would be more difficult for us to take care of the people within that particular area, which was the focus of that plan.

I assume that is the same reason for your having that defined area?

Mr. THOMAS. That is correct. The special impact legislation, in fact, talked to that very point.

Mr. CHUMBRIS. Do you have any other suggestions, after listening to the testimony here this morning, that would help guide us in focusing and trying to correct the problem that people presented this morning?

Mr. THOMAS. Well, I don't have any thoughts at the moment, but I would like to reflect on it, and if I have, submit any further ideas in writing to the subcommittee.

Mr. CHUMBRIS. We certainly would appreciate that. We ask that that be placed in the record when we receive it.

Mr. THOMAS. Thank you.

Mr. CHUMBRIS. Thank you very much.

Senator HART. Mr. Chumbris' question about Boston reminds me, when Bedford-Stuyvesant and the Restoration went to work, were there any white family residents in Bedford-Stuyvesant?

Mr. THOMAS. Yes.

Senator HART. There still are?

Mr. THOMAS. There are more today than when we started.

Senator HART. My recollection is, the Boston thing reversed it.

Mr. CHUMBRIS. Yes, it did, Mr. Chairman. I believe in the testimony in Boston, I think they pointed out that 85 percent were black and about 15 percent were white, or maybe Puerto Rican origin.

Mr. THOMAS. This had the effect of reviving the interest in brownstone renovation in Brooklyn, and I suspect in 1970 among the new purchasers that we assisted, I can't think of the percentage, but a sizable percentage—were young white families who were moving back into the brownstone areas, particularly in what we now call Fort Green, which is on the periphery.

Senator HART. You explained that you grew up there.

Mr. THOMAS. Yes.

Senator HART. I would not assume that at the age of 10 or 12 you inquired of your parents, how they purchased their home. What was it like? Is Bedford-Stuyvesant better or worse?

Mr. THOMAS. It went downhill until about 4 or 5 years ago, and it seems to me that today it is on the upswing again. I would say it is worse today than it was when I was a kid because the educational system is inadequate, the municipal services are still inadequate, and the drug addiction problem is spreading. I do not want to create any false sense of how things are. But in terms of where we were 5 years ago when we began this program, right after the riots. And there were many people in the country who thought that the inner cities were just going to go up in smoke. No one had a stake or an interest in their preservation.

Today when you ride through Bedford-Stuyvesant, and I know some of the staff members of the subcommittee have been there, you see tremendous evidence of the spirit revitalized in the people, and you see it in tangible things.

You see new housing units going up. You see blocks that are filled with street lights and gas lights and flower boxes and block associations. And you see young people at work on their own community. All these things point to a community that is on the rise.

Senator HART. What was the racial composition 40 years ago?

Mr. THOMAS. Four years ago?

Senator HART. Forty. I am turning to the period that I first inquired about.

Mr. THOMAS. I can comment on that point; but if my conscious age was 5, I can only go back on 32 years ago.

Senator HART. All right. Thirty years ago.

Mr. THOMAS. I would say that at that point it was roughly 75 percent white, 25 percent black. There are blacks who have lived in Bedford-Stuyvesant for 40 or 50 years. There are blocks where 90 percent of the homes are owner-occupied, some of the owners having been there for 30 or more years.

As an area, I would say the population was approximately 20 to 25 percent black, roughly 32 years ago. And then, after the Second World War, we saw another shift take place with more white families moving

out, largely to the suburbs, and black families moving in. That's when the crazy financing patterns began to eat away at people's ability to maintain their property because, with \$300 or \$350 a month in obligations, there was just no way you could take a two-family building, live in one unit yourself, and rent out the second unit to a family at a reasonable rate.

Instead, you took the second unit and divided it up into rooms and rented those rooms out on a weekly basis in order to try and increase the flow of capital coming into you so you could handle the heavy debt. You didn't have enough money for repairs and maintenance, and the quality of the property just started down.

I might say, because I don't think I mentioned it, the basic housing stock in Bedford-Stuyvesant is a tremendously beautiful housing stock. Most of the buildings are on 20-foot wide lots, which are roughly 100 feet deep. They are attached buildings. They are what we call brown-stone type buildings. You have a parlor floor or second floor, one above the street level, which may have a 12- to 14-foot ceiling with inlaid parquet floors and wood-burning fireplaces and beautiful plaster filigree ceilings.

They were built as great homes when they were built at the turn of the century and shortly thereafter. And so despite the deterioration that set in, there is still a basically solid housing stock on which to build and redevelop our community.

Senator HART. You heard many criticisms and concerns that were voiced this morning, and you have a rich background, yourself. If there was just one thing you could do now to respond to all of these criticisms in this area, what one thing would be most important?

Mr. THOMAS. I guess the one point that keeps coming back to me, and I haven't developed it fully, is the question of getting FHA and the other institutions in tune with what is happening around them. Getting them to account in some way to the communities for the conditions that exist right around the FHA operation.

It is just inconceivable that you could administer a program in a way which has the effect, consciously or otherwise, of adding to the deterioration of the inner city. There just has to be a way to change that operation.

Mr. CHUMBRIS. Mr. Chairman, to set the record straight on my comment on the original question, your impression was absolutely correct; that in Boston, the new area that was developed after the fund was created, was primarily an ethnic white group that because of extending the line, they moved out of that area to other areas. But when the final analysis was made I believe they said the loans that were given by the group, 85 percent were black; 15 percent were other.

Senator HART. Yes.

Mr. BLUM. Going back to the first question, most of the mortgages were as a result of initial speculator's transactions. Didn't they result from a turnover with a high markup and a speculator taking his profit?

Mr. THOMAS. That is my understanding. It could go back, it could be verified by going back to some of the record. Without checking the records, that would be the understanding.

Mr. BLUM. In effect, in paying off, in refinancing you not only got the person out from under that second mortgage, but you were able to reduce the amount of their monthly payment?

Mr. THOMAS. That is correct.

Mr. BLUM. It was essential to pay off the earlier mortgage. There was no way around paying the guy for his first piece of speculation?

Mr. THOMAS. In fact, thinking back on it, a large amount of the effort was spent trying to get the pre-payment penalty provision waived that existed in most of the second mortgages, so that when you got ready to refinance, you did not have to pay the face amount of the second mortgage plus a penalty. You might pay either the face amount or something less than the face amount. Strenuous efforts were made to get that done.

Mr. BLUM. In most cases you paid off the face amount, plus whatever penalty was required to get the person out from under?

Mr. THOMAS. In some cases, yes. I do not know if it was most, but in some, yes.

I might say that in some of those second mortgages—I think you have already noticed—were not self-liquidating. That is, they would have balloon payments on the end which would require a second financing, in effect, with more points coming out and more discounts. I think this was described in one of the papers that was delivered this morning.

Mr. BLUM. These second mortgages were traded among speculators in Brooklyn, were they not? Are you aware of that, where they were selling them back and forth to each other?

Mr. THOMAS. I do not know that for a fact, but that is what I heard.

Mr. BLUM. They were trading mortgages at 15 to 20 percent discounts. Does that ring true?

Mr. THOMAS. I would think so. It was generally thought of as found money in a way, so 80 percent of found money is still a lot.

Mr. BLUM. Even if it is not 100 percent, they are still coming out pretty well.

Mr. THOMAS. I believe so.

Mr. BLUM. The refinancing, tremendously helpful to the community, at the same time was also something that inadvertently got the speculators back in business by giving value to paper that might not otherwise be very valuable.

Mr. THOMAS. That is possible. But it would have involved paying off existing seconds and thirds, some of which were purchase money mortgages.

Mr. BLUM. Let me go back to the question of mortgage origination.

If a man comes into Bedford-Stuyvesant originally and says, I need a mortgage, I'm going to buy a house, what can you do in the way of counseling him and in the way of processing his application?

Mr. THOMAS. Well, until recently, what we would normally have indicated the ways in which you buy a home; that is, you go to a newspaper or go to a real estate broker who has listings. After you identify a home and have a contract to buy and if you need financing, as I am sure everyone would, then that is where we would step in.

We would process the application, but as a general rule of thumb we did not do a great deal of counseling of applicants, warning them in effect what to look out for. In part, all we had at the early stages was rumor; and, second, because given the fact what we had was rumor it really seemed an unfair treatment for us to get involved in these brokers' dealings, some of whom were reputable people.

Mr. BLUM. What happened when brokers came and there was a deal for you to process? What did you do then in the way of counseling the buyer, in the way of processing his application?

Mr. THOMAS. Well, the first thing the staff is told to look at is to see if it is a recent turnaround. If it is a recent turnaround, all the flags go up. While we do not have any real power and authority to say it is a good or bad deal, frankly, we look askance at anything that is a recent turnaround with a tremendous increase in price.

Now, some of us relied on the FHA appraisals, generally, and our own sense of what the market was like in a given block or a given area. And, frankly, I had difficulty in saying to a broker who went out and got a good deal—let's say he found someone willing to sell a property for substantially less than the market value of that property, and that transaction closed, it passed. You may not now sell the property for what it is in fact worth. Although I did not like the transaction, I could not find the legal basis for saying, "We will not process." In point of fact, we did discourage those cases from coming our way, at least. I do not know if the brokers took them in other directions or not, but we just did not want to be a part of anything that looked to be unconscionable from any standpoint.

Mr. BLUM. From what you describe, if I were a broker, the last place I would go is Restoration if I had a great deal.

Mr. THOMAS. That is right.

Mr. BLUM. Would that not account for the lack of business you had in your mortgage origination department?

Mr. THOMAS. On the purchases it could.

Mr. BLUM. I assume if we get into this more, perhaps you understand why you had so few customers for purchase mortgages.

Mr. THOMAS. We intend to follow these proceedings closely in order to learn from them.

Mr. BLUM. On the question of home improvements, are people coming to you for FHA home improvement loans, too? Is that a loan you can make?

Mr. THOMAS. I do not believe the 5-year home improvement loan is one within our ambit. There may be a home improvement associated with refinancing because, in fact, there is a 10-percent requirement that FHA recently adopted.

That is, on any of the refinancing, 10 percent of the amount must go into repairs in the home. In that sense, it is a home improvement.

In the classic sense of the 5- or 6-year loan, we did not.

Mr. BLUM. When you originated a mortgage, when you processed it, did you actually send someone out to look at the house?

Mr. THOMAS. Yes, we would. Not each time, but in the beginning almost on every case we went out, because we had to look at the block to see if there were any abandoned buildings. We actually went out and physically looked at each one of them which took a little time, but we think this was important as we got to know the block a little better.

Mr. BLUM. Would the mortgage companies or banks that took the mortgages, would they look at the building also as well?

Mr. THOMAS. Some did. Some would go out and take a look. The ground rules of the pool were that the existence of the firm commitment of FHA, and the fact that the application had been processed through Restoration meant that the institution was to take it, in effect, without doing an independent look. In point of fact, some, particularly in the beginning, still went out and took a look for themselves.

Mr. BLUM. At Restoration not only will they warn the guy the price may be too high, they will look at the property and then it will be given to a bank who will look at it again.

Mr. THOMAS. That is correct.

Mr. BLUM. If I take it to a mortgage company, nobody will look at it.

Mr. THOMAS. That is possible, and I will get my bonus.

Mr. BLUM. And there will be the points there as well.

Mr. THOMAS. That is correct.

Mr. BLUM. On the question of points, points are paid by the seller, is that the way that is supposed to work? Is that correct?

Mr. THOMAS. Well, it is a good question. I think, actually, in the sales transaction the points end up being paid by the buyer.

Mr. BLUM. That is in the form of a commission contract that looks on its face to be outrageous, although the mortgage points will be hidden in the brokerage commission?

Mr. THOMAS. Or in the selling price.

Mr. BLUM. The buyer pays the mortgage, because this is the property on which points have been loaded?

Mr. THOMAS. That is correct.

Mr. BLUM. In effect, it is the seller of the property who benefits by no point money as well as the buyer, or is it just the buyer? It is kind of confusing in a way.

Mr. THOMAS. No; the buyer benefits clearly from no point money, and the seller would benefit also, at least in theory, because if he wanted \$18,000 for his home, it is more easily sold at \$18,000 than at \$20,000. And if there are points involved, it has to be sold at \$20,000, so that he benefits from a presumably wider market and more rapid turn.

Mr. BLUM. A wider market and a lower price?

Mr. THOMAS. That is correct.

Mr. BLUM. Some people have said some of the reasons for dual housing markets in the United States, one for whites and one for blacks, is partly the point system.

If, in the suburb, a white person is selling to a white person in a conventional deal, the seller does not pay points. If he chooses to sell to someone who is possibly black, he will pay points. So in that situation there is a actually a money penalty for integration.

Have you heard that kind of discussion?

Mr. THOMAS. Just recently I have; yes.

Mr. BLUM. In the center city, where areas are designated all FHA, it seems very few transactions are face to face between the seller of the other property and the buyer of the property. Why do you think in the suburbs, on one hand, it is a—the broker is an intermediary;

in the inner city, he becomes an investor, who has to have ownership interest in the property before we turn it over?

Mr. THOMAS. I think that the absence of a ready credit market in the inner city has led to the creation of a whole range of schemes and devices by which people sell and refinance property. It has become very confusing, and a little bit frightening to most people, so that what is generally known is this: If you want to get a mortgage, you go to Mr. X or Mrs. X, whomever it may be. And he or she will arrange it for x dollars or y dollars. And that is really all you get concerned with because, if you do not know a Mr. X to whom you can go, you go to a bank or the usual places to get credit, and you would be told, "We are not writing in the area."

So that I think most of what we see, in this crazy-quilt pattern of brokers and intermediaries and shadow buyers and all the rest of it which I am sure will come out, is a by-product of a very scarce market for home credit. The people do not feel comfortable in improving their property with the notion that when they get ready to sell it, a willing buyer will look at it, be able to pay a reasonable amount and get financing. Also they themselves, are in doubt as to whether they will be able to refinance to pull out some of their equity.

I think what happens is this, you begin to develop a whole range of schemes that take advantage of a condition which is largely the absence of a free market for home credit.

Mr. BLUM. Why do banks withdraw from an area like Bedford-Stuyvesant when the mortgages are insured and guaranteed? What makes an area like that no good, even with the Federal Government prepared to say, "We will guarantee it"?

Mr. THOMAS. I really do not know yet.

Mr. BLUM. Is it possible they are facing the same kind of competitive market that you are facing, again the broker will go to the mortgage company rather than the bank?

Mr. THOMAS. It is possible. I guess the general answer to why the bank—or any institution that is in the finance business—makes a choice is that the opportunities are greater in other directions. So, if you have a finite amount of dollars to work with, you tend to put them in the area where you get the greatest return.

I am just not sure on the FHA situation. Logically it is insured paper, and there is a ready secondary market for it. On the face there would seem to be no logical reason for excluding these areas.

Mr. BLUM. One final question. On the FHA situation you said it was taking you weeks and months to process your loans. Mortgage companies seemed to process mortgage loans very quickly. Did you ever discuss the speed of processing with the FHA officials?

Mr. THOMAS. From time to time we did.

Mr. BLUM. What did they tell you?

Mr. THOMAS. Usually the problems turned out to be, on the surface, very legitimate. Typically we would send out a request for a conditional commitment, which requires an inspection of the property.

FHA is supposed to notify the owner when they are going to come out or when the broker is going to come out and take a look. Invariably something would happen. They would send a card, they claimed they had sent a card and notified him. He was not there. They showed up and there was no one at home.

That means you go to the bottom of the list again, and it may be 2 weeks before that appraiser is going to be back in that particular area. If he misses on the second time, you then have to reinitiate that application, we have to, anyway.

Mr. BLUM. Apparently somebody else does not prepare it, because I assume the mortgage company has the same problem.

Mr. THOMAS. All I can say is what I know about what happened to us. How do they get around that problem? I have had people sit in my office and say to me that they could get their commitments in a week. I do not know if this is true or not, but this is what they say. Now, how they are able to do that, I cannot say.

Mr. BLUM. With respect to foreclosure, the property becomes the property of the Federal Government. Do you put the property back on the market?

Mr. THOMAS. Yes; we have for the last 3 years. FHA came up to us in 1968 or 1969 and said that it had, at that time, roughly 180 buildings scattered throughout central Brooklyn which were then being set on fire and were generally a health hazard. They wanted to get the buildings cleared out, cleared of debris, and closed up so they could be made ready for rehabilitation. They asked us if we would, as an extension of our housing program, agree to take on their 180 buildings, close them up, clean them out, clean the snow away, and do the usual maintenance activities.

We said we would do it. At that point the idea was that FHA would remove from that inventory blocks of buildings for renovation.

We started in 1969. They had 180 buildings. And, of course, what we found out immediately was that you would no sooner tin the building up and clean it out, then come back a week later and find the building open again. You would have to resecure it.

We also asked FHA initially for 10 buildings to rehabilitate for it, and we took the 10, rehabilitated them, and lost money on the rehab, I might say. But we did it, and we did them right, and put them back on the market.

Then we asked for a second 10. This time we gave them what we thought was the fair price for doing the work, based on our experience, so that we were not just going to patch and repair. If something needed to be replaced, you could go ahead and replace it. We could put new boilers in and do the things that needed to be done.

Well, FHA decided that our bid on the 10 buildings was more than it wanted to spend on those buildings, so it said that it was going to go out and give the buildings to private contractors. We said, fine; we had no problem with that.

But, in point of fact, and to my knowledge, FHA has only removed roughly 100 buildings from the inventory in the 2½ years. I do not know how many of those have been rehabilitated, but they have not given us a second group of buildings to rehab.

At the moment, by at least last Friday, the inventory of FHA-owned buildings that we tin up, and clean the debris from, and get ready for rehab is now over 600 buildings in central Brooklyn alone.

Mr. BLUM. I cannot help but contrast with what you said about FHA's willingness to spend as much money as necessary to repair with the appraisal process they use at the other end, with somebody buying a house. There somehow the appraisal comes in at the contract price.

Apparently it does not work that way with the contract to repair.

Mr. THOMAS. It has been a major frustration for us, quite frankly. The only reason for getting into the tinning up and cleaning out end of this, which is the dirt end, believe me, is to get the buildings ready for someone to rehabilitate them—not necessarily us, but someone would get in.

We have not only the next group of 10 that we asked for, but we have since gone back and identified 25 other buildings. We have asked for those for years. I understand just this last Friday, we reached an understanding with FHA that they would now sell us the buildings.

We have said to them, if you do not want us to rehabilitate the buildings for you because you feel the cost is too great, then sell us the buildings for some nominal amount of money, and we will rehabilitate them and put them back on the market.

We know there is a market for these buildings. We know we can rehabilitate them. We ask you, at some reasonable figure, to let us take the buildings from you. Let us have them.

In the past 2 months FHA has announced that it has been willing to transfer 50 buildings to the New York Urban Coalition, and another 50 to the Model Cities program. That, to me, is the first indication of a willingness to move blocks of buildings out from under its jurisdiction and control.

Mr. BLUM. If you do not rehabilitate them or somebody does not pretty quickly, the buildings head for destruction?

Mr. THOMAS. There is no question because, if they sit vacant for more than a year, it requires a complete gut job on the inside of the building. Whereas, initially, it might require only new plumbing, a new roof, and some cosmetic treatment.

Mr. BLUM. I have no further questions.

Senator HART. Mr. Thomas, thank you very much.

(Materials relating to the testimony of Franklin Thomas follow. Testimony resumes on p. 80.)

LOANS INSURED BY FHA UNDER 203 AND 221(d) 2 PROGRAMS IN KINGS, QUEENS, AND NASSAU COUNTIES

		Sec. 203		Sec. 221(d)2		
County and year	Number of loans		Amount of loans		Amount of loans	
	Total	New homes	Existing homes	Total	New homes	Existing homes
Kings:						
1967	1,989		1,989	\$41,873,000		2
1968	4,801		4,801	96,750,050		167
1969	3,983	29	3,954	82,675,100	2,450	2,450
1970	2,860	23	2,837	64,871,460	2,184	2,184
1971 (6 months)	1,264	17	1,247	30,629,600	711	711
Queens:						
1967	2,408	3	2,405	74,000		7
1968	3,436	9	2,427	67,336,750	52	52
1969	3,478	7	3,471	73,973,750	359	359
1970	3,063	31	3,032	70,697,400	528	528
1971 (6 months)	1,584	10	1,574	39,100,250	296	296
Nassau:						
1967	2,809	16	2,793	52,669,900		10
1968	3,171	32	3,139	62,174,219	8	8
1969	2,868	23	2,845	59,945,600	49	49
1970	2,372	30	2,342	53,227,900	99	99
1971 (6 months)	1,285	28	1,267	30,208,050	69	69

Senator HART. We will now hear from Mr. Hessel. Mr. Hessel?
(Whereupon, Mr. Hessel was duly sworn by the chairman.)

STATEMENT OF ALLEN HESSEL, DIRECTOR, LAURELTON AREA NEIGHBORHOOD ACTION PROGRAM, NEW YORK CITY

Mr. HESSEL. Senator Hart, members of the committee, I would like first to submit my statement, as written, to the committee, an extensive 13-page statement, with a 5-page flyer, describing the activities of my office.

My name is Allen Hessel, and I am the Laurelton area director for the neighborhood action program.

This is part of the office of the mayor of the city of New York. But my concern, really, is not just as an official of the city of New York, but also as a resident of a corner of Queens, southeastern Queens.

As Mr. Thomas has described, Bedford-Stuyvesant is part of Brooklyn; Laurelton is part of Queens. It is a borough of about the same in size; but the section I am concerned with, interestingly enough, is the community of Laurelton plus half of the community of Cambria Heights, and the southeastern tip of Springfield Gardens.

We are so far away from the center part of the city that we have been identified more or less by the title of a suburb of New York City.

In fact, we have so little recognition that, just over a year ago, a commissioner of the city of New York, just prior to the neighborhood action program being started in the area, when asked to speak in the area, this is a city commissioner, when asked to speak in the area, a very polite reply was received by residents of the community, I'm sorry, the commissioner only speaks within New York City.

We have been waiting a long time. We have been involved in what has been defined as a changing community for at least 10 years. My own involvement has been for 7 years.

We have seen many changes: changes for the better, changes for the worse in the community. And that is what the subject of my presentation is today.

We have a beautiful little community of one- and two-family homes; 26,000-27,000 people reside in the area. What we are faced with is the beginning of an apartheid Borough of Queens, that we are feeling for the first time in southeast Queens.

We are at war, a war that was begun 10 years ago. We have our own demilitarized zone. Its true name is Hillside Avenue.

Between Hillside Avenue and Jamaica Avenue in Queens, which is approximately a north-side dividing line in the Borough of Queens, we have a string of real estate brokers. I think at last count somebody said it was 75, 80 or 90; the exact number, really, is incidental. It is the location, the strategic location of that demilitarized zone, that is so very vital to the future of Laurelton.

Laurelton is adjacent to the predominantly black communities of Southern Queens, South Jamaica, St. Albans, Springfield Gardens, Hollis and it is facing one of the most organized, vicious attempts at destruction of this part of the city of New York. And I stress organized, because I intend to show you today how devious and how extensive is that organization.

We face the bitterness that people have faced under a changing community for the last 10 years. We have gotten so accustomed to the bitterness, it has become part of us. Our role, now, is to bring up the facts. Basically, I want to talk about a discriminatory steering system that exists in the Laurelton area, that exists in northern Queens, also.

We have a steering system generated by real estate offices on Hillside Avenue. Let us say, if you are white, they will shunt you north of Hillside Avenue; if you are black or another minority, they will shunt you south of Hillside Avenue. This is going to lead to an apartheid borough. It is rapidly on its way.

You have seen in the New York Times, in the last couple of weeks, maps with various other problems that contribute to it. But I like to liken it to a campaign, military campaign, a war that is going on. At first, in the beginning, a police action and you use small tactics. And then, of course, if the war is being won by the opposition, you use your big weapons.

Well, initially, the small tactics were enough. The first black residents of south Bronx, Manhattan, south Jamaica—who finally, after many years of frustration, realizing that American dream of owning their own home, chose, not by choice, some, perhaps, by choice, areas adjacent to their own communities. They ventured out and they found the same beautiful, little suburb that I looked at within the city of New York, Laurelton, an attractive community with low taxes and beautiful homes.

And they were directed here. Some were directed, others just ventured eastward. What they found was what everybody was looking for, a better place to live, a quiet, residential tree-lined community.

This frightened some of the white residents of the community. They had never experienced anyone living next door to them who had a different ethnic background than their own.

And so some, at the mere sight of the first black resident on their block, got up and panicked. That was enough to change a few blocks; but a tactic merely utilized by brokerage houses and such on Hillside Avenue, and I keep coming back to that avenue, was to channel as many blacks into the area.

And I say that the new resident, the new black resident of Laurelton, Cambria Heights, Springfield Gardens, was far more economically advantaged than the person he was replacing. He had made it in a very tough society and he was seeking his just reward.

But he didn't realize, like I didn't realize until this last year, that this is part of a big game plan, or the first battle, the first time that people are going to be shunted to a certain area. That there were such things as red-lining, that there were certain communities that were designed for black people and they were adjacent to existing all-black communities. I wasn't aware of this, but slowly I learned.

As I said, initially, some people fled and fled more dramatically than others. Most just quietly sold their houses and just moved to the far reaches where this problem could not reach them immediately.

But now there remained a steadfast group of people, people like Jay Steingold, people like Bill Pfeffer from Cambria Heights, who said, it is not enough that the man is black next door to me and moving into my community, for me to be frightened, for me to leave, because he

fought for that home, and I am going to take a close look at him. And he did take a close look at him. He organized the block meeting, the Block Association, and he said, this guy has proved himself. He can own his home. He can put dollars into these homes.

And so the panic subsided somewhat. But, as I said, this was the opening battle of the war. The opposition was not happy. Laurelton, Cambria Heights was fairly stable.

Let us go to statistics in the city of New York, a normal turnover of 3.5 percent of the homes in any community, outside of the one I am talking about right now. Since 1960, that turnover of homes has increased slowly and then, in the last 3 years, far more rapidly. It now reaches, as of January 1972, an 11.8-percent turnover of the homes.

Let us go back to that steering system. Let us get back to what is happening.

Well, as I said, we had a relatively stable community in the late 1960's or so, 1966, 1967, 1968, 1969. Black families were moving into the community, they were being received, some well, some not so well. Laurelton became a model, so to speak, of an integrated community, to a certain extent. In 1968 we reached about a 30-percent black population, which is probably reflective of a national average.

Well, it continued. Another type of thing had to occur. People weren't moving fast enough. They were not turning over their homes for a profit. That theme I heard repeated quite a few times this morning. But we were turning over. I have a map here, it happens to be one of our planning commission maps that I marked up to show the transition of this community in the last few years, and I would like to submit this to the record.

What it shows, to those assembled, is my responsible area, the Neighborhood Action Program area, outlined in black, with each dot representing the sale of a home in the last few years.

If I can comment on that: this fellow coded the dots showing the different years. We have also circled any of these dots where an FHA foreclosure has occurred.

If I can submit this up front, Senator, for you to look at, and other members of the committee.

The problem with this particular map, of course, is that in my own feeling it's only a part of southeastern Queens. It shows that 11.8 percent turnover. When you look at it, it looks like the entire community is turning over, and it might just be that, block by block.

How does it occur? Well, let us take a walk up Hillside Avenue. Since we can't do this right now, where we can see all of these various brokers on the avenue, let's go back a few years to 1965, when the Fair Housing Council in cooperation with Operation Open City, and the Urban League, tested the brokers to see if they had any type that they were shunting. Now, we've gone back to 1965—white people to one section of Queens, blacks to another.

All right, I'll read for you and I will submit this for the record.

"Subject: To Mr. and Mrs. Steingold, real estate broker, Butterly and Green, Sunday, November 29, 1964, husband and wife team stated that they wish to buy a home on the south shore of Queens, in Laurelton if possible, to be near friends."

"They are willing to spend approximately \$20,000 for a two- or three-bedroom house, attached or detached, prewar or postwar."

"Mr. Steingold asked the real estate broker, 'Mr. Tuttle, do you have any homes in Laurelton that would meet these specifications, two or three bedrooms, English Tudor, a bungalow ranch, about \$20,000?'"

Answer: "If you want Laurelton, there is not much to offer, but I could show you a few."

"Do you insist on buying a home just in the area of Laurelton, Mr. Steingold?"

The answer: "We are from Brooklyn. We don't know too much about the area, but have friends living in Laurelton, particularly near the Jewish Community House on 223d Street."

Mr. Tuttle to Mr. Steingold: "Have you visited your friends recently?"

Answer: "A few months ago."

Mr. STEINGOLD. "How about showing us a large house with a fireplace in Springfield Gardens? We visited a friend there and I fell in love with their house."

"Good heavens, no." This is the answer. "That's a colored area, you don't want to live there."

Question, Mr. Steingold to Mr. Tuttle: "Isn't it true that Laurelton is right near Springfield Gardens? Please be truthful with us, Mr. Tuttle. We are asking for your advice where to move. We come from Brooklyn and don't know these areas."

Answer: "Other agents would take you to Laurelton just to make a commission, but I would rather let you walk out than take you to Laurelton. I wouldn't want you to come back in a year and give me hell because it turned into an all-colored neighborhood."

"Butterly and Green has written off all of the southeastern Queens, including Queens Village, Cambria Heights and Laurelton."

"Where then should we move if not to Laurelton?"

Answer: "I would rather show you homes in Ken Gardens, Hillsborough, Bayside on the North Shore. That is safe. Even if the same house cost a little more, because it is good, clean, 100 percent white, in a good Jewish neighborhood, you would be happy there."

"But why? I have friends in Laurelton. I don't know anyone there."

"You think you have friends in Laurelton? They are not your friends; otherwise they would have told you about the Negroes moving in."

"Your friends in Laurelton have gotten the benefit out of their homes. They don't have anything to lose by selling their houses."

"Take my case, I sold my own home in Laurelton 4 years ago because I saw this coming."

I would like to stop here and ask, how did he see this coming? Did somebody plan it for him? 1964, 1965, similar testimony, another gentleman, a gentleman going into the store, introducing himself to Queens Homes sales representative, saying: "We live in an apartment in Brooklyn and are considering buying a home of our own."

"Do you have any type of home in mind?" the broker asked.

"We would like an English tudor. We saw your sign outside and the prices are right for us. One sign said Cambria (Heights). Can you show us a home in Cambria, or anywhere around Queens? We come from Brooklyn and are not familiar with Queens. I think I had a feeling that there are tudors in Cambria Heights."

"We would like it around a Jewish Temple, if possible."

Flipping some pages, he said, "I'll look through my listing and see what I have."

"I don't know if I should buy a house after all. I don't like the idea of having to move after we've settled in a home."

"A house is a good investment, as long as you buy it in the right area," the broker says.

"You're living in an apartment now."

"So long as we're living in a good area, we would like to have more room. An apartment isn't large enough to raise a family."

The testimony goes on, and it says: "Well, Cambria Heights is a good area. Many people sell their homes from relative to relative or friend. Where else do you know of English tudors for sale?"

"There are also English tudors in Laurelton. Is that a good place to live?"

"As long as you buy a house in the higher numbers, such as 234th Street and up around the Belt Parkway," and there the broker turned to another salesman in the office and asked if he could find a home for Mr. and Mrs. W in his book.

"There's a nice house on 222d Street. It's an English tudor," the other salesman said.

Mr. T the broker said, "No, no, that's too far down for them."

The salesman said to the broker, "It's all right. This house is in Cambria Heights, not Laurelton."

"Well, why is it OK in Cambria Heights and not in Laurelton?"

"I suggest the higher streets to you in Laurelton because they are for nicer people who live there. I suggest this house in Cambria. I'll call them."

Speaking on the phone: "Hello, Mrs. Rogers, is your house still for sale? We would like to show it."

Pause. "Is yours a changing neighborhood?"

The answer could not be overheard.

"Oh well, thank you. Good-bye."

His statement is, "I'll show you something else. That house was not for you."

The broker has decided where this gentleman will live.

All right. That's 1964. Let us up-date a little. March 29, 1972, front page in the Long Island Press: "FHA Mortgage Scandal, Many Indicted on Bribery Charges and Fraud." Quite a few of those people who were indicted were brokers involved in transactions, that were trading through Hillside Avenue.

So Federation of Laurelton Block Associations was organized and assisted by my office. They went out on April 9, only a few short weeks ago, to determine the brokers' attitude toward Laurelton. I submit this for the record.

In an effort to determine what attitudes and opinions are expressed about Laurelton Queens by real estate brokers who are active in selling homes in the area, these volunteers visited several brokers on Hillside Avenue.

The couples were average in appearance, unquestionably respectable, absolutely not belligerent or aggressive. They agreed to approach each broker in the same fashion, open and receptive.

They asked first about available homes in areas in Queens and then naively and innocently asked about Laurelton as a nice place to live.

There was no effort to lead the brokers, other than asking, "How about Laurelton? Is that a nice area?"

Let me read to you some of the answers. This is, incidentally, 4 years after the 1968 Civil Rights Act. I would like to read to you some of the statements made by some of the people.

In Long Island Homes, at 16812 Hillside Avenue, a real estate firm, the salesman, Mr. Herb Sideoff, whose card is photocopied here, and I will turn this over as I said to everybody concerned. The salesman urged them to sell their home first. He mentioned that he thought Queens Village was a nice, stable white community. Incidentally, Queens Village is north of Hillside Avenue.

But he offered his advice. He said, let us assume we are all very liberal. Laurelton has 50 percent black.

And the wife said, it looks like a nice community. Obviously very middle class even though it is 50 percent black.

Gee, the salesman said. He moved out of Cambria Heights and listen to this statement he made. Let me tell you truthfully, even though they are buying nice homes, they're animals. The salesman urged them to think it over and come back. It was a white salesman, talking to a white prospective buyer. Himself, he is from Queens.

I think that should be a violation of somebody's civil rights.

Mr. Abels at ABCO Realty was visited by a Mr. and Mrs. Jack Godler, a new young white couple who had come into the community. And such statements as; Mrs. Godler asked if the neighborhood was integrated, how were the schools since she had two children. Were the schools good?

Mr. Abels said he thought the schools had some problems. He said most people want to live with their own kind. He would neither recommend Laurelton or not recommend it. The couple would have to look at it for themselves. He did mention other neighborhoods that his salesmen would be happy to show them, areas north of Hillside Avenue. He was generally very careful, diplomatic, and avoided any direct statements, especially after lengthy discussion.

The couple went on to another real estate broker.

I can go on page by page. A salesman said, yes, he would recommend you buy less home for more money in a better area, and not to put your money in that area, Laurelton.

The salesman suggested buying a home in Fresh Meadows or Jamaica Estates, areas that were not integrated. He said, it is a shame it is this way, but even if the editor of Newsweek was black and earning \$35,000 or more, he could not get into these white areas. But there were plenty of blacks in Laurelton earning more than Mr. Godler was, and that is where they were living.

The salesman said the couple would sweat and sell if they bought a home in Laurelton. It was not the people there, he said, but the people coming in from other areas that made it bad.

Senator Hart, with that type of advice by a real estate broker on Hillside Avenue, would you buy a home in Laurelton? Not too many whites are through brokers on Hillside Avenue.

Fortunately, there are alternatives, and some young couples, white couples as well as black couples, are buying homes directly. They are walking into the community and they are looking at it, and finding exactly what I looked for 6 years ago, a quiet residential community.

Now, when the black testers, Mr. and Mrs. Peoples, approached the real estate agency on Hillside Avenue, they were told a slightly different story. A couple said they were interested in buying a home in Queens, we saw an ad in one of the Sunday newspapers. They could not remember which one, but it was of homes in the \$30,000 to \$35,000 range in Laurelton.

They asked about the Laurelton area. This was a black couple. Mr. Steiner said the schools in Laurelton were excellent, both the high school and the elementary school. They were told it was a nice neighborhood, a good neighborhood, they would like it. Mr. Steiner then directed them to see Mr. Henry C. Yanicks to get all the particulars and then to show them the homes.

When the couple saw Mr. Yanick, he asked for their salary range. They said somewhere in the neighborhood of \$17,000 or \$18,000.

Mr. Yanick said they should have no trouble getting an FHA mortgage. Why no mention of the conventional mortgage? I got a conventional mortgage 6 years ago. But maybe this is part of the battle plan that has not come out yet.

Mr. Peoples asked were the homes nice in Laurelton, because the section of Brooklyn where he was from, Bushwick, had deteriorated, and he didn't want his new neighborhood to do so.

Mr. Yanick urged him to ride over to see Laurelton. It was just what they were looking for. They said they would be back later.

Then it goes on and on as far as testimony. But this is 1972 testimony. It duplicates what happened in 1964. In spite of the 1968 civil rights legislation, nobody is stopping these guys from steering people. Nobody is denying them the right to choose a home in a part of New York City that they would like to choose a home in.

This is what people are saying. But what is actually happening? We take a look at our DMZ zone. We take a closer look at the mortgage situation.

We look through Realdex. Realdex is a listing of all the real estate transactions occurring in Queens, a mimeographed document, available for a fee for real estate brokers. And you just go down listing after listing.

And I noticed some of the companies that were dealing south of Hillside Avenue, mortgage firms, like Eastern Services, like United, like Interisland, like Springfield Equities. Where are the banks? Where are the large banks? Just take a look at the rest of the Realdex, and you will find them, the banks, in the northern part of Queens, giving out conventional money.

My question is: Somebody is directing money. It is organized. I think we have a monopoly situation here, a conspiracy, a conspiracy to say to black people, buying homes in southern Queens, they are trying to direct only black people to buying homes in southern Queens, that you can only get one type of mortgaging. You are being denied a choice of mortgaging. I think somebody is preplanning this. And that is why 6 months ago when I was up in Boston, on September 13, and I came back and I asked you to investigate the type of activity that goes on in our mortgage market. And you did because we are here today.

A little bit about the type of advertising to attract people to this community. 1965, Laurelton on approximately the same dates, this is

from the Greater Laurelton Council, on approximately the same dates Laurelton and Cambria Heights appear only in the Amsterdam News. Bellerose appears in the Long Island Press. Kew Gardens Hills and Jamaica Estates appear only in the New York Times.

Not the similarity and price ranges, the intent of this type of advertising. It is obvious.

I would like to turn these ads over to you, Senator Hart. It will show you that the same type of home exists in northern Queens and southern Queens, but as far as availability or potential market, some of the homes in southern Queens are not being made available as readily to one part of the population, as well as the other. This is steering.

(Material submitted for the files.)

And so since 1965, we have the newspaper, the New York Amsterdam News, that I bring to you and submit for the record. Two pages of real estate ads; in every instance, without exception, all the ads refer to changing communities or black communities.

In other words, if you are a black potential buyer, you do not have an open city as far as Amsterdam News is concerned, when you choose. You just have the areas that have been allocated to you.

We can look at some of the terminology in the ads themselves:

Free color TV with the purchase of any house in our ad. All houses with VA mortgages only, many with low-down payment. Must bring this ad with you, offer expires December 15th, Apollo Estates in Ocean Avenue, Brooklyn.

Fifth Avenue Realty, right next to Fourth Avenue Realty, which is the successor to Third Avenue Realty and Second Avenue Realty and First Avenue Realty, all dealing in neighborhoods in transition, all dealing with GI's and FHA mortgaging in this area.

In fact, advertising has become quite skillful as far as the various real estate brokers on Hillside Avenue are concerned.

I have flyers here, that are very interesting:

Why pay rent when you can own your own home for less money? The facts are, wherever you rent or wherever you buy, you pay for the home you occupy. Win with the champions. We have a tremendous selection of one and two-family homes in beautiful suburban Queens. Many can be obtained with no cash down to GI's and FHA low-down payments all others. All homes offered are subject to Government approval.

Where are they located? Baisely Park, a black area; Laurelton area, a changing area; South Jamaica, a black area; Cambria Heights, changing community; Springfield Gardens, black area, changing communities.

We also have a large selection of GI and FHA foreclosures. Ask for Joe. Please bring the circular with you. Please keep this circular.

These were distributed to black and Puerto Rican families on our subway train going in from Brooklyn to Manhattan and Queens to Manhattan.

All right. My responsibility with the city, of course, as NAP director, I must involve myself with the capital projects to help reconstruct. And as I mentioned in my testimony, the flow of things through the office of the neighborhood action program is what we involve ourselves with.

We said let us get our own city commissioner on human rights involved. There is apparent violation of city ordinances. We have a brand new, or relatively brand new State law on blockbusting.

Well, we have one of the weakest laws that has ever come out to any agency, giving them maybe a little bit of a definition as to what blockbusting is, but as far as doing anything about it, the city commissioner on human rights, in order to actually declare an area a nonsolicitation area, has got to have a public hearing in that area. He has got to have proof positive that discrimination in any form is existing in that area.

All right, we began. Back in April 1971 we petitioned, myself and my deputy director, Mr. Russell Washington, who unfortunately could not be here today because he has been promoted to a new responsibility in the city administration and has undertaken that responsibility. But the statements that I have presented to you in my testimony were gone over by Mr. Washington and myself, and are presented as a joint venture so to speak.

The public hearing was held in Laurelton, July 20, 1971, before you had a chance to go to Boston and have the public hearing there. And the same Jack Goller who was just about to move into this community was testifying about the area of banks.

(The testimony is submitted for the files.)

Once he decided on Laurelton, he applied for a mortgage:

But I did it in two ways. The first way I did it was to apply on the basis of the area I chose. And I am talking about dealing with major banks, banks such as the Dime Savings Bank of Brooklyn, the banks that service your area, the banks where you put your money, the bank you influence by going down there asking what their policy is on points.

When I chose to do it that way, we were told, without asking, to put down 30 percent and maybe three or four points.

Secondly, I was told about the G.I. mortgage, backed by the Government absolutely. It is guaranteed.

Once again we were told we would have to take points, and I was told by a particular bank I dealt with, people licensed for the area.

Then I went back in another way. I went back and I indicated where I worked, my executive level. He happens to be an associate editor for Newsweek magazine in New York. His income is quite substantial. And they said, "Fine. Where do you want to buy."

And we were quoted mortgage rates and interest rates, no points. Then I went to fill out the application, the address, and two banks were very much embarrassed to change their quotations. And they both did it via phone when they found out it was in Laurelton.

In other words, he was denied a mortgage in southern Queens, a conventional mortgage, merely because he wanted to take it out in southern Queens.

He is white. At the bank, if he went to any other bank for any other area of Queens north of Hillside Avenue, he would have had that mortgage in a very short period of time.

Testimony that was gathered here also shows the bitterness. I submit this as part of the record, the entire hearing that was held in Laurelton on July 20, 1971.

Just prior to that hearing secretary of state (Lomenzo), in an attempt to stop the unwarranted solicitation, after declaring the area a special cease-and-desist area, 5 or 6 years before, where voluntarily a homeowner could write a letter asking him to inform all licensed real estate brokers that they should no longer solicit in the area, not do business in the areas, not limit them from doing business in the area, but just do not bother the people who just might be interested in living in an integrated community.

Secretary (Lomenzo) on the basis of information gathered for that public hearing of the city commission on human rights, in Laurelton, on the basis of information, took an unprecedented step, and declared the area a nonsolicitation area. You should have heard the howls put up by the real estate industry, because these areas were not declared off-limits just to solicitation.

They got around it. His limitation actually limited only licensed real estate brokers. So the nonlicensed speculators continue. "Houses wanted for fast action, no commission to pay, appraisals, all cash paid, quick closing, call now, S. & R. Associations, Richmond Hills." This was sent, incidentally, to my deputy director at the time, Russell Washington. "Houses wanted, fast action, no commission to pay, same-day appraisals, all cash paid, quick closing, call now, MPA Holding Corp., Real Estate Investment."

In other words, it was not enough to shut off the solicitation for the licensed industry. Now they had to come in the back door, because there is a lot of money to be made in the southeastern Queens area if you can turn over the homes.

When my own new deputy director who is here today, Mrs. Morris, went to test a broker, they had a customer for her, they had a house for her, because she was a black woman and she was interested in buying in southern Queens. In fact, some of them even anticipated her coming out and selling the home that she currently lives in in southeastern Queens. They do not even bother to check if a person is white or black any more; they have to turn over homes as quickly as they can.

So they send out little cards, saying, "We have a customer for this house, phone Harbor Realty Corp." That is a solicitation. Unfortunately, the area that was being solicited was just outside of the nonsolicitation declaration.

Let us get back to advertising. We have a community called Forest Hills that has been in the news recently, the site of scatter site housing in New York City. There are two real estate ads, two small ads, in their green book.

I really think the color of the book, it obviously has nothing to do with northern Queens and southern Queens; but anyway, Smith Realty and Schwemmer Realty has two small, two-and-a-half inch ads. I submit this because I am going to contrast it with the yellow book of the Laurelton, Rosedale, Springfield Gardens area.

We start with the real estate ads on page 124 and we continue for 12 complete pages. We have an ad from Fifth Avenue Realty; remember those guys from the Amsterdam News?

\$2 million cash to you. This year our goal is to purchase over \$2 million worth of residential property. Stay as long as you like, do not worry about appraisals or buyer's credit. We give you the cash and we assume all the worries. The highest prices paid anywhere. List today, sell tomorrow. We give second mortgages.

Behind in your bills, need cash? Mortgage money always available. We do re-financing. List today, sell tomorrow. Home of the guaranteed sales plan.

Selling your home? Plagued by countless worries? Will my deal go through?

Now, the terminology in this paragraph here—"Plagued by countless worries? Will my deal go through?"—why would they make that statement if so many deals did not go through by so many people leaving the area?

"Will my buyer get a mortgage?" Why would they make that statement if there was a doubt in getting a mortgage, or a realty?

"Will I have two homes and be making two mortgage payments at the same time?" This is an old game. This is the closing game, where everything was supposedly handled for the seller of the house and the buyer of the house in the getting of the mortgages.

But all of a sudden the buyer came in short, and the seller of the house who is buying another house in an all-white community elsewhere is trapped. He is trapped between saying, OK, your prospective buyer of my house in Laurelton could not come up with the money, he is \$2,000 or \$3,000 short. I have to make a choice at this particular moment, at the closing, whether to accept the \$2,000 or \$3,000 less, and thereby enable myself to close on my own new house tomorrow, or be hung with two obligations.

Further bitterness.

Are you selling? Leaving home? Choose Family Pride, ask for Faye Kaye, mortgage specialist. List today, start packing.

Page by page, some bearing the indexes or the logos of some of the finest real estate boards that are in existence, the multiple listing service.

"Rosedale home resale specialist. Cash for your home now." I could go on page by page by page by page. I will submit this. At your leisure you can look at this type of advertising.

OK. Now, remember I said they were unsuccessful in getting out people who decided they liked to live together, people of the same economic means. Then they have got to create a different type of panic. This is economic panic.

A different class of people are now coming into the community. So the ads of just the communities themselves have been replaced by:

Cambria Heights broker presents brick two-family, semi-detached, five-and-five palace. \$39,990. St. Alban's, six-room brick, attached. Jamaica, four rooms, now G.I., one total cash.

Who are they addressing this ad to? There, in large letters:

Singles, widows, and welfare mothers, you can own your own home now through one of the many government sponsored home ownership plans. For further information, call Success Realty.

OK. Why? That is the question I would like to know. Why do they have to resort to this type of tactic.

And then the broker himself is inundated with requests from companies like the Public Equities Corp., an FHA-approved lending institution, in the Executive Building at 250 Fulton Avenue, Hempstead, N.Y.

You know, it is very coincidental, the FHA has their regional office at 175 Fulton Avenue. So do quite a few private mortgage firms. Maybe that accounts for some of the quickness by which mortgages can be gotten through.

I mean, it is very simple. Just run downstairs, process the mortgage through, and you have got an advantage over Mr. Thomas, who has to mail it or hand-carry his applications out to Hempstead. This flyer I introduce to you. That is part of the problem.

I have a photostat of a firm commitment given to two widows, one single with no dependents, one divorced woman, sharing a home. They were able to get a mortgage for \$35,750. Great. But who is going to make the monthly payments? They certainly cannot. That was granted. I submit that.

Now, this thing is—I do not want to go on and on with constant examples of the type of abuse that is rained upon this community. We had a recent evaluation by four students from the New School for Social Research in New York, and they came up with some statistics about the community itself, very, very interesting statistics.

The percentage of population receiving welfare in our part of Queens, Laurelton, in April 1965, only 141 people received welfare assistance in this area of one- and two- family homes. There are no apartment houses in the Laurelton area.

In July 1971, not 141, but 1,082, an increase of 667 percent of welfare recipients now residing in the area. How many are homeowners?

Queens, meanwhile, has gone up only 134 percent. The increase in New York is 148 percent. Somebody, based on this increase to 667 percent, must be directing welfare recipients to the southeastern corner of Queens.

We take a look at the New York Times ads, the New York Times full-page maps and diagrams. I would like to submit this for the record. This is how the rapid spread of poverty in cities creates entire new zones of poor residents here.

Take a look at the borough of Queens, almost divided in half by Hillside Avenue. More welfare people in the southern portion of Queens, and very few in the northern section of Queens.

OK. Welfare people are entitled to good homes. Welfare people are entitled to everything anybody else is entitled to. They are people first. They happen to be on welfare.

How do the real estate entrepreneurs abuse the welfare recipient?

What they do is, they do something like that which is occurring on a block right now in Laurelton, a particular block that has been living with a block association, an integrated level of about 50-percent white, 50-percent black, for the last 3 years and getting along fabulously, working together.

The second house from the corner, one real estate broker called up the people last July 4 and said—and this is to the entire block a few days before the nonsolicitation declaration—he said, “If you are interested in selling your home, please call Surrey Real Estate.”

They said, “Why would we be interested in selling our home? We are not interested at all. We are very happy here. We are living fine. We have access to New York. It is a really great community.”

He said, “All right. If you ever are, then call me.”

Three days later a family—a woman with 12 children—was placed into one of the houses that this particular real estate broker had bought. The family caused a bit of disruption on the block. It quieted down somewhat after much consternation. Only four people moved.

They said that the neighborhood was going down economically. Incidentally, two out of those four people were white, and two out of those four people were black. Fifty percent white and black moved from the area because of an economic decline.

Then, lo and behold, the house right next door was also sold through the same broker, and a welfare family with 10 children placed next door. And that is 22 new children on a block. What does this do to our schools?

That is only one block, and there are 400 blocks in Laurelton. What does this do to the psychology of the block?

Now, we see another interesting phenomenon occurring in the Laurelton southeast Queens area, that of foreclosure, mentioned by Mr. Thomas and other witnesses this morning. We only have 21 houses foreclosed with some of them boarded up, tinned up, and are a good refuge for addicts and all that sort of thing. But what does it do to the person next door? What does it do to the block itself that is trying to live together?

Blocks that are still willing to work together, still willing to remain in an integrated fashion where a community accepts the fact that a Jewish religious institution in a membership drive to replace a dwindling membership comes out and announces that they are going to have a homefinding service for new Jewish membership.

They had 800 families. It is now down to 400. They do not want to deny anybody a home in Laurelton. But they must keep a viable Jewish membership in that synagogue, in that particular institution.

So they come up with this idea of having a homefinding service to attract more Jewish members to their institution to replace those that were fleeing, either by attrition or deliberation. And they came up with it and they announced it, and they were so severely criticized by so many people. How dare they try to attract white residents to the community? Are they denying black people the opportunity to buy homes in the community?

It is an interesting concept that this very tiny minority, only 3 percent of our Nation's population, was being accused of discrimination.

Well, it depends upon how one looks at it. They even applied to the federations of Jewish philanthropies, the large Jewish institutions, to say, help us finance this type of thing.

Initially, they said yes, but now they, too, have turned their backs. How closely involved are the large philanthropic organizations in this type of community destruction?

But let us get back to that welfare situation. We have a very interesting program in the city of New York that is partially federally funded. It is called the finders fee program. In order to enable welfare recipients to find places to live in the city of New York, in 1961 the prior administration developed an excellent program, called the finders fee program. Just recently a mailing was made to every single licensed real estate broker in Brooklyn, the Queens, Manhattan, the Bronx, discussing the merits of the finders fee program.

The way it works is that a broker or a house manager, an agent or a landlord, is able to pick up a fee of \$700 or so just for the mere placement of a welfare family in his house. He is supposed to get a lease. In many instances, I would say practically in all instances, the lease is not really signed. And so the landlord or broker or manager picks up \$700 plus the first month's security, and because there is very little control over this program, it has been abused to a point whereby a broker can pick up either a foreclosed FHA home or even a home that he picks up via panic selling or something like that. And he has a nice little income, using your money and mine—we are taxpayers.

The finders fee program has relocated some people. But the problem is that some people have been relocated into deteriorating housing as a result of this program. If this program is going to work, it must be made available to an open city of New York, and not just in southeastern corner of Queens. The abuses keep going on. But I will submit

to you the details of the finders fee program. I think we are owed an explanation as to how it is currently being administered.

Well, basically, you have my statement. You have some of this information that is given here. I could probably go on for hours and hours. The hour is growing late though, and I think that 6 months of investigation really is going to show something—that we have a giant monster that has been created in this city for the one expressive purpose, and that is to make a lot of dollars for somebody.

Now, when banks such as Chase Manhattan, First National City—I mean the national banks that are running this country—decide—whether it is done de facto, de jure, or depending on how one gets into it—that their money, conventional money, is going to be applied only in one-half of Queens, and Uncle Sam's money is going to be applied in the other half of Queens, then we have violations of all sorts of laws.

I am not an attorney. I am just presenting a case for some of the people in southeastern Queens. And with that, I still cannot understand why brokers continually want to open up in the Laurelton area. They are closer perhaps, to their victims.

And every day a letter is mailed to the secretary of state, asking him for permission to open up in the Laurelton area. Since his declaration that no new brokers were going to open up in the Laurelton area, itself, or Cambria Heights, only four have opened. That is pretty good. We expected 20 or 25.

Now, I get copies of the letters sent to the secretary of state to ask my opinion and my approval of a real estate broker opening on the avenue. Well, I do not have that authority, and I do not want that authority. Those who take the authority or have the authority should whether you decide that the broker industry is going to take over a viable shopping center or not, the decision has to be made.

More important, we are in the midst of the beginning of a conspiracy or a war that is going on in southeast Queens. And I cherish the opportunity, really, to come before the subcommittee to seek the answers.

I do not know the solutions, but I would like to work for the solutions. The first thing to do is to identify the problem.

Thank you.

[Prepared statement follows; testimony resumes on p. 101.]

STATEMENT OF ALLEN HESSEL

My name is Allen W. Hessel and I am the Laurelton Area Director for the Neighborhood Action Program, an integral part of the Office of the Mayor of the City of New York. The concern I show for this community is also based on the fact that I am a resident of Laurelton, owning my own home on one of its tree lined residential streets. The experiences I bring to you today are a combination of my feelings and observations both as a resident and as an official of the City of New York.

My area of responsibility is home for 26,000 people living in either Laurelton, the southern portion of Cambria Heights or the eastern section of Springfield Gardens. The housing stock, which is a mixture of solidly built pre-World War II houses, reflects more of a suburban character than those areas commonly associated with the city. We are on the far southeastern boundaries of this great metropolis, approximately 17 miles from Manhattan.

We are not here to discuss the many beauties of this attractive bedroom community but to expose some of the ugliness that is creeping over this scene of tranquility to the dismay of every homeowner in the area. For the last ten years and

longer on some blocks, groups of people have concerned themselves with the change in racial makeup of the community. This area is adjacent to one of the largest black communities in New York City (South Jamaica, St. Albans, Hollis) and is feeling the pressure of expansion of upward mobile black citizens. People seeking the same opportunity, as I did seven years ago, that of attaining the American Dream of owning one's own home.

It is this dream that must be focused on by all levels of government, because it is being replaced by a nightmare of victimization that is leading to bitterness. Bitterness on the part of the long time resident, who feels he is forced out of a once viable area and bitterness on the part of a new resident who is forced into a deteriorating area.

Civic Associations, Fair Housing Councils, Block Groups, Dialogue groups all wrestled with what was happening in these communities, and the deeper involved, the more tense people became. I remember four years ago when I organized and helped run a block meeting for the Fair Housing Council to calm the fears of white residents who feared that first black family that just moved on their block. How that fear was channeled into empathy and relief when the new resident was shown to be economically more advantaged than the person he replaced. Appeals were made to Government, first the City and then the State. Nobody in resident South-eastern Queens even thought to appeal to the Federal Government. After all, "blockbusting" was a local problem. No one ever dreamed that this moment in their lives was being shared by people in communities just like theirs all over the country.

The communities tried to combat the ever increasing all black prospective buyers being shown houses on their blocks with innovative attempts at "balancing" the market. They felt that fire had to be fought with fire. A Jewish religious institution, feeling a growing loss of membership due to the exodus of members from the community, began their own "homefinding service" to replace its gradual loss of members. Howls came up from Civil Rights groups that it was discriminatory against other minorities to operate such a service. The then City Commission on Human Rights arbitrated a solution, knowing and feeling the growing bitterness in the communities. The Secretary of State responded by allowing the use of cease and desist letters that were designed to stop mail solicitation.

Fear and Panic was see-sawing throughout the communities. The most dreaded expression in the mind of white residents gripped with doubt and anxiety was "Hi, I'm your new neighbor." Some didn't see beyond the man's exterior to the same wants, desires and dreams they had. They fled. Not in droves or with fanfare, but at night, without saying good bye. Neighbor looked at neighbor and began to size up when each thought the other would move. Crabgrass became secondary. Long term home improvements were being put off.

It didn't matter that the new black resident could buy and sell anyone on the block and had a newer car, more stylish clothes, a better job. It meant to too many people that this was the beginning of the end. It was a favorite expression that this area became integrated when the first black families moved in and would remain that way until the last white family moved out.

Mrs. Jones was mugged. Little Tommy Smith had his lunch money swiped. Crime was on the rise and the police were not responding quick enough. It didn't matter that Mrs. Jones was being mugged all over this country. This area was changing and that's all there is to it. The more rational said let's assist the police, the crimes occurring were not the fault of the new residents but "outsiders." One of the most effective Blue Light Safety Patrols anywhere is still in operation in Laurelton and new groups are coming up each week. It paralleled the Laurelton Volunteer Ambulance Corps in assisting in the safety of the community.

More enterprising attempts were made to stabilize the community: Newsletters from Civic groups announced the latest victories in newly developing battles against the broker.

The real estate broker became the target of the residents bitterness. He was causing this change. People began to test the sales techniques of the broker as their methods became more and more aggressive.

"Sell your home while you can. All Cash." "Don't wait till it's too late." This in spite of hundreds of cease and desist letters. Sure, some brokers were fined for violations but not many and not much.

The last quarter of 1969, when this area of Southeastern Queens had experienced an influx of black residents that in 1960 comprised only 1% of the population, now reflected a 30% black home ownership. A real integrated, Apple Pie American Dream Community. Underneath it all was a feeling of uneasiness. The heaviest concentration of new black residents was in areas adjacent to the black communities and moving slowly along.

Mayor John Lindsay, in a speech just prior to his re-election in the Fall of 1969, recognized the obligation of the government of the City of New York to half a dozen communities undergoing the above transition.

Eloquently and with determination he announced that help was on the way. Recognizing, as no other city official in the years past, the distinctiveness of these communities and the vital role their viability must play in the continuation of the American City, he kept his promise and created the Neighborhood Action Program which was aimed primarily at reducing threats to a neighborhood's stability. He said, "The fear of deterioration leads to deterioration."—and that the city meeting with the members of a neighborhood would try to bring viable signs of concern and change—There would be an explicit decision to bring the disparate population of a neighborhood together.

He said that the city would work with the community to help find the answers and would give these special communities the power of the city's capital budget to plan together what they thought was necessary. The small but vital programs that show active hope. This means better street lighting; it means repairs on the streets and avenues of neighborhood. It means intensive efforts to clean the parks and expand their use. It means tailoring police protection to specific neighborhood concerns. And it means the swift, effective response of the city to the things a neighborhood needs. He believed this could be done—and through N.A.P. it was going to be tried. While others talked about decentralizing government, N.A.P. began to do it.

Fourteen months ago together with Russell E. Washington, Deputy Director and a fellow resident of the area, who happens to be black, with the assistance of two other community residents, we began to make it happen. I include the chronological involvement of our office in the five page document.

More and more our communities came to N.A.P. for action and more and more we were able to listen to different types of problems. They weren't city service connected, or had to do with grandiose schemes for community betterment, they were now real social problems.

For the first time I was experiencing and receiving complaints from residents, both black and white that some of the new families coming in now were just not the same as those that arrived only a few years before.

Even though, as one clergyman newly assigned to the area remarked "I thought the Neighborhood Symbol was a Moving Van" there hadn't been a strong indication that there would be an upsurge in panic.

After all, the N.A.P. had started to put together block associations that were allaying fears and building inter-racial friendships to a certain extent. It started just around the time that the City Commission on Human Rights at our suggestion began to survey the community for an upcoming public hearing which I will discuss later.

A man admitting to being on Welfare came into our office and announced that he had no lights. Con Edison shut off the power. I don't remember how many children he had, but his neighbors sure did. Well, we got him his lights, but it turned out that the owner of the house that rented to this welfare recipient through a "Finders Fee" program had connected the electric power to the house by passing the meter and thereby avoiding a monthly charge. The utility found out and cut the power. The occupants were left in the dark, no heat, no hot water for 2 days until they wandered into our office. That was the first time I had realized that Welfare recipients were living in our neighborhood. It would not be the last time.

In the course of 14 months we were gathering data, people were moving and were dropping by to say so long. Thanks for everything. "Don't tell anybody but I really didn't get \$30,000.00 for my house, the new family couldn't come up with the balance over the mortgage so I settled for \$28,000.00. I had to, after all I was using this money for my downpayment on my new house in Utopia and my closing was the next day. Who can afford two houses?"

Then the calls started coming in about the guy down the block who moved in with nine mattresses, two duffel bags, a million kids, 4 vicious dogs and a battered up car service relic. The black residents would call Russ, the white residents me; both with the same story. A low class element was moving in and I'm not going to sit by and watch my kids get beat up, my property destroyed.

The new panic phrase was now, "Welfare." I started to get back my "I'm Stayin' " button. They're not staying with this type of person. Not them. They moved here to get away from people like this. This is the end. Nassau County here I come.

We tried, but to no avail with some. They retorted, look if the Mayor paid me what he pays you, I would stay too!

Then I received a typewritten note under my door that I have to read to you because it's typical. What a tale of woe. Could it be right here in this town?

I have put together a step by step picture of a hypothetical house based on fact.

A family because of the schools, or the airplanes, or the potholes, or the need for more land, whatever the excuse decides to sell. He knows the brokers are untrustworthy, hadn't Sec. Lomenzo created a Non-Solicitation area for this N.A.P. area and two others. He'll put his own ad in the paper. Nobody is going to pull the wool over his eyes. The ad appears. The phone starts ringing. Hundreds of calls. All brokers. Look why fight it. I'll be careful, I'll be firm. \$31,000; not a penny less. These people got it and I've been looking around at other areas. I need every penny I can get. You got to pay for a good area.

In walks Mr. Smooth with an exclusive contract. Your house is sold, \$31,000 to you. Guaranteed. It's as good as in your pocket. Here's a guy to see in Utopia, tell him I sent you and you'll get a castle. Sign here. Sometimes Mr. Smooth has to spend ten minutes sweet talking the seller, but he rarely leaves without an exclusive. Oh, by the way Mr. Homeseller, you know I can't discriminate because of race or creed so I don't get what you mean by selling right.

In about ten minutes the parade begins. You're not to say a word about price, let Mr. Smooth handle it. Hollywood baths, er— sorry, the kids are using it Mr. Buyer, all the basements are the same; the house is warm isn't it. Don't worry about that watermark around the light fixture, that's those new Latex paints. We'll paint it up and you'll never notice it flying by in a jet at midnight. O.K. You like it. Sold. Mr. Buyer let's go back to the office and fill out the papers.

Sign here, here, here, here and here. Don't worry, I told you I'll take care of everything. Government guarantees you a loan. Years ago I couldn't get you a mortgage, now with the new laws you haven't got anything to worry about.

Go home, I'll call you in a few days.

Hello, Mr. Seller gotcha the \$31,000. Go to contract Wednesday; bring your lawyer. O.K. got to hurry up now, got to get your buyer a mortgage.

Let's see; credit application signed in blank.

Mortgage application signed in blank.

Just fill in the names and numbers. Got to help these people otherwise they'll never get ahead.

Go to contract. No down payment or maybe \$500.00. Made sure applicant for mortgage has sufficient cash on hand, set up bank account with \$2000.00 to be closed after credit check.

Within 24 hours Mortgage commitment and F.H.A. guarantee, appraisal— everything.

Day of closing. Broker with assistance of clients lawyer who he supplied as a service, all apologies that buyer is one or two thousand short; you'll have to accept less or we're in trouble. Seller's attorney doesn't deal like this and prepares to walk out. Seller says O.K. Got to close later on new house. Deal complete. Seller bitter.

Buyer is ecstatic, now owns his own home when he was only looking for a bigger apartment. Then the real monthly cost is apparent. Got to get a second job. Money really tight. Three months behind. What do you mean the heat don't work. Eleven hundred dollars for a new unit? Do you know what Mr. Smooth told me I can do, I can go to the Foster Home Agency and take in 3 kids and can use the money for the mortgage. Your sister is being thrown out; look we'll rent her the upstairs. Got to pay the mortgage.

We have to get out of here. I got us an apartment back in the old neighborhood.

House is foreclosed. Uncle Sam pays off. Boards up windows and doors. Then it can go in a few directions. Sometimes, Mr. Smooth gets it back again. Sometimes it goes to Welfare. Sometimes it goes to ruin. Even standing there all boarded up somebody is getting \$80.00 per month out of it. He is managing the property and putting it back in shape.

Is that enough for you? Is that enough, that this house, that symbol of the American Dream starts to join others in a steady and profitable decline. I mean no disrespect for the buyer, I mean no disrespect for the seller, I mean no disrespect for the broker. I just want to point out and I began by stressing this was hypothetical. The sad fact is I built this story on fact.

Let's look at what attracted the buyer. Look at this flyer. If you were living under the conditions the recipients of this flyer lived, you would run not walk to this opportunity.

If you were going to sell and you were hustled from broker to broker and you were tired of promises, wouldn't you turn to the Yellow Book and listen to this ad.

\$2,000,000.—Whose money?

Let's get back to the reality of Laurelton and N.A.P. There is a new light going up on the pole in front of that boarded up house, somebody is starting to fill the potholes in front of the curb. There aren't as many postcards or flyers under the door since the Sec. of State declared the area a non-solicitation area. The City Commission on Human Rights surveyor doesn't stop by. There are beer and soda cans among the high grass. The back door swings gently back and forth exposing Hypodermic needles, insect crawlings.

No this isn't happening all over the N.A.P. area in Southeastern Queens. Only 21 houses out of 7000. That's today. 6,979 good solid homes.

And today across the street from the house I live in, a trade in narcotics so brazen that the only one not able to comprehend what is going on in that house is the Police Department. Their hands are tied.

I could go on and on about the negative. So many do. However, there is something that is going on that is beginning to reverse this negativism.

It is the Concerned Citizens of Cambria Heights, two merchants associations on our two avenues and the Federation of Laurelton Block Associations. This is their first publication.

They are going to unite the 6,979 homeowners in this area in a new fight. They have begun and we are working with them.

N.A.P. has begun to bring the disparate population of a neighborhood together and they are gathering steam. In the schools, battling bars and grills, battling the ever increasing numbers of real estate hustlers, who like vultures swoop down from their once distant locations on Hillside Ave. Hillside Avenue is just like Blue Hill Ave. in Boston. Chicago has its Avenue, Kansas City, Cleveland, even Mound, Minnesota.

Store after store after store, Real Estate Brokers and more Real Estate Brokers. Clustered around the end of the subway line in central Queens which spills out the tired, the hungry and the poor, all in search of the American dream. A Better Place to Live. Mr. Smooth sits behind the desks in these places and waits. The Neon signs flash, the windows all decorated with enticing slogans, all selling the American Dream.

I would like to know the number of black buyers sent to look at homes South of Hillside Ave. and the number of white buyers sent North of Hillside Ave. to continue the apartheid structuring of my adopted borough. I would like to know the number of dollars made in the numbers of schemes that exist to separate people from their hard earned dollars.

Do you want to know the weapons that N.A.P. and residents have to choose from in battling the war of transition?

The City Commission on Human Rights has been given the power to declare any 4 block area after a public hearing to prove once and for all there is blockbusting in that 4 block area, a non-solicitation area or, City Commission on Human Rights can take legal action if there is a direct right on the button, act of discrimination.

It is apparent that continuous shunting of our ethnic group to one area and another to another area is not right on the button.

Or the City Commission on Human Rights can refer more serious violations to the Secretary of State for action against brokers.

The anti-blockbusting law was passed through the State Legislature. There is no city anti-blockbusting law that I can use in my battle.

On the state side, Secretary of State, John Lomenzo, acted and was upheld. He responded. In the declaration of Non-Solicitation for 3 N.A.P. areas.

But, you have to get up pretty early to beat some of these guys. Here are 3 solicitations sent into this area by non-licensed speculators.

And since Sec. of State Lomenzo declared that no new brokers applications would be processed for stores in the Laurelton N.A.P. area, only four stores have opened with a fifth trying to come in.

That Federation of Laurelton Block Associations really went all out and prevented another from opening who chose to withdraw his application because he didn't want to perform a disservice to the area.

One of the other brokers who steadfastly, adamantly stuck to his guns, spent \$21,000.00 and opened a store. Called the community bigots and proceeded to open a branch way out on the Island. His first real estate ad.—F.H.A. and V.A. Foreclosures. We lost that one Mr. Lomenzo, but we'll still work with you; you're all we've got at the State level that has tried to help.

A bit of good news has reached me in the past few days. State Senator Ralph Marino finally has gotten his bill through to license real estate speculators. We'll be right with you Mr. Lomenzo and Mr. Cea. We need another weapon.

Now, let's go on. What can the Federal Government do to assist us now. The city has responded, the N.A.P. is in there battling. The State has responded. Secretary Lomenzo has given it all he can.

So six months ago I approached your Senator Hart after attending the hearings in Boston. I am here today. In the next days we will hear about the hidden part of the iceberg of destruction. A weapon intended for good turned around and used to destroy. Who points this destroyer at our community. It can't be the broker. He has to be backed by someone.

You know, six months ago when the City Commission on Human Rights held its public hearing in Laurelton, a young man who is one of the motivators of the Federation of Laurelton Block Associations testified to the difficulty he had in obtaining a mortgage for his house. He could afford any mortgage, the bank told him so and he had enough down payment, it's just too bad he chose Laurelton because this bank doesn't write conventional mortgages in that area. After that testimony I went to the Realex, a borough wide listing of all mortgages and I couldn't find many banks that did. All or almost all were mortgage firms. They were F.H.A. or V.A. guaranteed.

Now I know I didn't spend four years as a bank auditor for nothing. Something was wrong. I asked you, Senator Hart, and I know you're going to tell me and the rest of this country. You are going to tell us that the system designed to help is being used to destroy my city. All for a few hundred millions of dollars.

But, Senator Hart, I need more than you and your committee to help me and the Laurelton N.A.P. Area. I want you and your colleagues and even the President himself to respond to the needs of our communities. I don't want highways built through my community to escape, I want those highway funds given to fix the streets that were never done properly. I want those transportation monies to go to buses and high speed conveyors of people to enable us not to travel to the moon but merely to get us to the North of Queens.

I want you Senator Hart to assist me in influencing those Federal officials not to scrap the mortgage programs that are needed but to open the Northeast Region to equal opportunity.

In summary, we have only begun here. All levels of Government must get involved in areas in transition. If cultured properly at an early enough time, we just might be able to point with pride to viable integrated housing in dynamic communities.

This country cannot afford to write off these six N.A.P. areas. They need a different type of assistance than the Watts, E. St. Louis, Bedford Stuyvesant areas. They need the inspiration that hope can give.

Mr. Washington, who for the past fourteen months has shared the task with me in attending to the problems of our neighborhood, regrets he couldn't be here to address you today. Mr. Washington has just been given a major responsibility within the New York City Administration. However, he asked me to convey to you that the contents of this presentation constitute our mutual efforts.

LAURELTON NEIGHBORHOOD ACTION PROGRAM,
Laurelton, N.Y., February 22, 1972.

DEAR FRIEND AND NEIGHBOR: Feb. 16, 1972, marked the completion of the first year of service to the Cambria Heights, Laurelton and Springfield Gdns. communities by the Neighborhood Action Program.

The Neighborhood Action Program is a program which was initiated by the Mayor with a specific goal of dealing with the problems of a community in transition.

Our staff listed as follows is made up of residents who live within the program area and who are well aware of the many problems we have faced within the past year and will be facing this coming year.

Director, Allen W. Hessel; Deputy Director, Russell E. Washington; Community Worker, Kerstene Morse; Secretary, Lena Ruden.

The program has been operating with your particular interests and needs in mind. Wherever needed we have directed our efforts toward improving the services of City Agencies operating within this area; Improving Lighting and road conditions by allocating N.A.P. funds within the financial limits provided.

Many of the accomplishments documented herein were made possible through the cooperation of Community Organizations, Concerned Citizens, Elected

Officials, Block Associations and Merchants Organizations. We, therefore, cannot overemphasize the importance of the continued cooperation of these groups in improving the life style of our communities.

As the year progresses, let us not forget that strength is achieved only through Community Involvement.

Respectfully yours,

ALLEN W. HESSEL, *Director.*

RUSSELL E. WASHINGTON,
Deputy Director.

LAURELTON AREA N.A.P. PROGRESS REPORT, 1971

Conducted Community Surveys in order to determine the communities needs.

Organized a Community Advisory Council consisting of Concerned residents within the N.A.P. area. The responsibility of the group was to provide community inputs relative to spending funds for needed capital improvements.

Organized a Governmental Advisory Council consisting of all elected officials representing the N.A.P. area. The purpose was to improve communication between the community and its elected officials. This arrangement resulted in a greater awareness on the part of elected officials regarding community needs and problems.

N.A.P., in an effort to reduce area crime, approached the 105th Precinct Commander during March 1971 with the intent of encouraging his support of our request for a Neighborhood Police Team. Such a program was initiated in the N.A.P. area during Oct. 1971. No allocation of N.A.P. funds was required.

The N.A.P., during April 1971, in coordination with the Sanitation Dept., conducted a major area clean up project. All local streets were swept, washed and bulk refuse picked up and disposed of. The project included cleaning of empty lots which normally is not a city responsibility.

The N.A.P. has allocated funds for the following projects:

Street lighting (entire NAP area)-----	\$150, 000
Luca Lux lighting (Merrick & Linden)-----	43, 000
Sanitation equipment (used exclusively NAP area Dist. 66 and 67) -	48, 000
54 local streets to be strip paved-----	205, 500
Total allocated-----	446, 500

Through cooperation with The Springfield Gardens H.S. Principal and P.T.A. President, the N.A.P. contacted and negotiated with the Traffic Dept. to arrange for proper traffic signs in the vicinity of the school which were installed during Sept. 1971. No allocation of N.A.P. funds were required.

N.A.P., in cooperation with 5 local Civic groups contacted and negotiated with the Highway Dept. to complete the Springfield Blvd. Project. Several meetings were held in the community and the final plans were publicly reviewed during July 1971. Bids were then let out during Aug. 1971 and the work started during Oct. 1971. The construction is located between Merrick Blvd. North to 112th Ave. along Springfield Blvd. There was also a ground breaking ceremony held during Oct. 1971. Cost of the Project is \$1.8 million. No allocation of N.A.P. funds was required.

N.A.P., in cooperation with the BSA, helped to plan a BSA Scout conservation Day during June 1971. N.A.P. arranged for Sanitation pick up, plastic bags, police barricades and permits.

N.A.P. also assisted in the instruction of Leadership classes at Andrew Jackson H.S. as well as Urban Affairs classes at Queens Community College. The N.A.P. staff gave lectures covering such topics as Government Operation and Community Problems.

N.A.P. was instrumental in reorganizing 2 Merchants Organizations along Merrick and Linden Blvds. N.A.P. has met with the groups over the past 2-3 months to help structure a leadership body.

The N.A.P. assisted the Staff of the Laurelton Community Center by arranging for Buses to be used by the group during the Summer 1971 and making flyers on several occasions. This project is a community funded operation designed to provide our youth with a constructive recreation center.

N.A.P., when informed by one of our local Civic Organizations as to the need for replacement of fire equipment at Springfield Blvd., investigated, contacted and negotiated with Comm. Lowery for a commitment to replace the old apparatus. This Equipment was delivered during the month of Oct. 1971. No allocation of N.A.P. funds was required.

N.A.P., in an effort to stop the panic selling of homes in our area as a direct result of Blockbusting, initiated a plan to organize Block Associations as a means of focusing attention to the problem by improving communications between ethnic groups on a block basis. To date we have organized approx. 25 such associations, each of which is actively performing vital community services.

N.A.P. met with the Queens Director of Parks in an effort to have them recondition and clean up all parks within the N.A.P. area. N.A.P. accompanied the Parks Director during a survey which was made in September 1971. Some parks have been cleaned to date.

N.A.P. worked, in cooperation with the Boro Presidents office and the N.Y.C. Transit Authority, to further reduce delays in the start of our 2 express bus routes (Q20X & Q24X). Copies of routes and time schedules were distributed by our office to area residents. The N.A.P. office provided hot coffee to the first passengers to ride on the Q24X bus. These services were started during Sept. & Oct. 1971.

The N.A.P., in cooperation with the Merrick Blvd. Merchants, helped to sponsor a Street Festival which was held on Oct. 17, 1971. Entertainment and prizes was provided. The intent of the Festival was to create an awareness that the local shopping area was alive and viable.

The N.A.P. cited the Laurelton Safety Patrol for service to the community. The Safety Patrol was nominated as a possible recipient of an award by N.Y.C. under Operation Better Block. During Oct. 1971, they received such an award which was presented by Mayor Lindsay along with a check for \$400.00 to be used in conjunction with their project.

The N.A.P. organized and held a Hanukkah-Christmas party for the area children. The N.A.P. did cooperate and combine their efforts with those of the Merrick Blvd. Merchants in distributing gifts to several hospitals during the Christmas Season.

The N.A.P. has allocated funds for improved lighting within our area. Increased lighting acts as a deterrent to crime. This is the type of improvement which will be provided on all blocks within the N.A.P. area. Installation is scheduled for Spring 1972. Luca-Lux Lights will be installed along Merrick and Linden Blvds. at the same time.

The N.A.P. has allocated funds for strip paving of 54 of our local streets. Work is expected to start during Spring 1972. This is an attempt to improve the conditions of our local roadways. Additional road construction will take place depending upon the availability of funds.

The N.A.P. has allocated funds to purchase additional Sanitation Sweepers for Dists. 66 and 67. This equipment will be used exclusively in our area for keeping local streets and curbs cleaned on a more frequent schedule.

The N.A.P. has been very successful in keeping our area free of abandoned cars. N.A.P. reported the locations to our local Sanitation Districts for tagging and removal. In the process N.A.P. has contacted at least 6 persons whose vehicles were stolen. The particular vehicles were 1966 to 1970 models in excellent condition. The farthest owner was located in Southern N.J. In each incident the owner had his vehicle returned.

N.A.P., in an effort to insure continued services to the area, has met with the following Depts. on several occasions to discuss area problems:

N.Y.C. Transit Authority
Parks Dept.
City Planning Comm.
Boro Pres. Office
Highway Dept.
Bureau Gas & Electricity

Police Dept.
Sanitation Dept.
Social Service Depts.
Sec. of N.Y. State
N.Y.C. Comm. Human Rights

N.A.P. has participated in the 105th Police Pct. Community Council in an effort to keep abreast of crime problems within the N.A.P. area.

N.A.P. is coordinating all of its activities with the local planning board. A coordinator has been designated to coordinate between the two groups. (Community Planning Board 13)

N.A.P. throughout the year has handled several hundreds of complaints pertaining to potholes, clogged sewers, etc. Each of these complaints was forwarded

to the proper agency for maintenance and/or corrective action. N.A.P. also monitored to see that the work was accomplished within a reasonable time schedule.

N.A.P. contacted the Traffic Dept. in an effort to have damaged or missing traffic signs replaced. To date all of the signs reported have been replaced.

The N.A.P. assisted the Laurelton Athletic Assoc. by providing them with a monthly meeting place at the N.A.P. office. This service was also provided to the Merchants and several community Block Associations.

N.A.P., during the year has coordinated Anti-Block Busting activities by co-operating with agencies on all government levels. N.A.P. was instrumental in encouraging the Secretary of State to declare our communities Non-Solicitation Areas.

Senator HART. You also scheduled the conclusion of your testimony at an appropriate moment. Again, the signal has been given that a vote on the floor is occurring, a few minutes ago.

All of us up here, I am sure, as you reached your conclusion, were going to join everybody on the bare side of the aisle.

In 1968 we thought we had identified a problem and enacted that Federal fair housing practice. We thought this would be protection.

What you described, it would seem to me to be a sort of probable cause situation with respect to the real estate group.

As I recall the 1968 act, the Government itself can undertake action on the stuff that you have given us. It would indicate, after we identified that problem and passed a law, not very many changes occurred.

I think we'd better recess. We will be back in about 10 minutes.

Mr. HESSEL. Thank you.

[Whereupon, a short recess was taken.]

Senator HART. We will be in order.

Would you explain to me again the problem of getting a conventional financing arrangement in Laurelton?

Mr. HESSEL. Senator, basically, I had no quarrel on that 6½ years ago.

Senator HART. I know you said—

Mr. HESSEL. The cost is, I think, is turning over of all the arrangements to the broker. I think the real basic difference is the fact that when I got my mortgage, I went with my own attorney to a bank and we applied for the mortgage. Now, a person buying a home in Laurelton, is totally dependent upon the broker to provide him with that particular service of obtaining a mortgage.

Senator HART. If you were to buy in Laurelton today, would you be able to get conventional financing as you did 6 years ago?

Mr. HESSEL. As for myself, I don't think so. If I compare myself to this other person whose testimony I quoted with a regular job, where even though he had a large income, a stable income, and was willing to put down a good amount of money, he was not able to get conventional money until he absolutely threatened the withdrawal of his firm's multimillion dollar account in a national bank, and then he got his mortgage.

And that, he got his mortgage. And—

Senator HART. I am sure, the question I was going to ask you, I would ask you to make a judgment about having available to you a knowledge that would justify it. But there are others who can ask a question.

Mr. BLUM. I would just like to thank you for the great help you have provided the staff in our investigation in New York and the Laurelton area.

I think, without your help, our job in trying to find out what happened to New York would be greater. On behalf of myself and the members of the staff, thank you.

Mr. HESSEL. Thank you for coming to New York.

Senator HART. Mr. Chumbris?

Mr. CHUMBRIS. I, too, want to thank Mr. Hessel. I'm glad to see you again.

I know we went through the Boston hearings, and I appreciate the conferences I had with him over the phone relating to these hearings in New York.

Mr. HESSEL. Thank you.

Senator HART. You said that some time ago, effort was made through the Jewish Community Center, and other groups to encourage Jewish families to purchase homes in the neighborhood. Can you tell us about it?

Mr. HESSEL. This started at the Jewish Community Center by an enterprising rabbi, Rabbi Singer. He became a real estate broker. He went to school. I don't know if he got his license or not, but he took a course and his main concern was the replacement of this draining population that was really having an effect on the religious institutions in town.

When they openly advertised for new membership, it was the various well-intending organizations, and I think they were really clamoring in their battle for an open city (which does not exist in New York City), that were critical. They brought the matter before the city commission on human rights who, at that time, Judge Booth now, arbitrated it and there was a mutual agreement that something was needed, really, to attract young white families to the community.

And no charges were ever enforced by Judge Booth, or at that time, Commissioner Booth. It sort of died down for a while. But, periodically, there would be a charge brought up that there was discrimination, or so, and yet, when brought before the State commission on human rights, the city commission on human rights, there never was grounds for proof on that particular thing. It was something where—

Senator HART. The reason I wanted to get a clearer understanding, there seems general agreement among those who are described as sympathetic toward an integrated, balanced community, that you have to guard against an attempt to forestall massive white departure, massive black entry.

Now, an effort was undertaken by the rabbi to forestall it, wasn't that his claim?

Mr. HESSEL. That was his intention.

Senator HART. Why was it misinterpreted when you apply it? Doesn't the rule apply it?

Mr. HESSEL. I wish I could really have hard, concrete evidence to present to you that the objection was something that I suspect. I suspect the objection would be that this is a holding action, holding back a time schedule of turnover in this community, in anticipation of, in other words, it was a blocking action. Like in the war I described, that this particular battleground would not be captured in conjunction with some prearranged schedule of continuing the ever-widening

ghetto, because if one does bring in white residents, you are defeating the continuation of the expansion of the ghetto.

In other words, it is fair housing in reverse, so to speak. It is bringing white families into a community that is becoming predominantly black, to hold off, it is a holding action. It is a——

Senator HART. I am trying to find out if that, in fact, was the purpose, why did the civil rights group protest?

Mr. HESSEL. I don't know why they protested, because I look at this as being the purpose, and this is why I went along with the religious institutions in town. By the way, that was expanded. One of the decisions by Commissioner Booth was to expand it to all the religious institutions in town, to attract young white families to the community, to offset this tremendous burden in here. And yet those who are foremost to defend the charges, I can't directly link them to the real estate industry, but I suspect that they are pretty comfortable allies.

The problem is I can't prove it.

Senator HART. The real estate group you suspect was the comfortable ally of whom?

Mr. HESSEL. The individuals who were making the charges, that this particular home finance service was a discriminatory practice. They had individuals there, attorneys who were on the other side, pushing these charges, who were also sympathetic to the real estate industry in closings and such. I can't prove that; I wish I could have more to prove that.

Senator HART. The only reason I am troubled by it is there, if it is true that massive turnover, rapid turnover, is undesirable, undesirable to those who seek a balanced, integrated community, whether somebody then undertakes to forestall that and finds he is going to get shot down, as an anticivil rights force, then you are not going to have people working to stop the turnover. That is the only reason I am trying to find out what happened.

Mr. HESSEL. I agree with your line there. In a sense, I am also puzzled by that type of approach by groups. This is the same community that led the battle, so to speak, to reveal this changing nature of communities. It has been fighting for 6 or 7 years to do so. Yet when we try to come up with an individual program, it is criticized severely by those who could possibly benefit most.

Senator HART. Thank you very much.

Mr. HESSEL. Thank you.

Senator HART. And now we welcome Mr. Ronald G. Yelenik.

(Whereupon, Mr. Yelenik, Mr. Prosnitz and Mr. Walters were duly sworn by the chairman.)

Senator HART. Will you identify yourselves for the record and then proceed?

Mr. YELENIK. My name is Ronald G. Yelenik. I am the attorney in charge of East New York Legal Services, a neighborhood legal services office, funded by OEO and located in the east New York section of Brooklyn.

On my right is Mr. Eugene Prosnitz; on my left is Mr. Gerard O. Walters., colleagues of mine, and attorneys working in the east New York office.

**STATEMENT OF RONALD G. YELENIK, ATTORNEY-IN-CHARGE, EAST
NEW YORK LEGAL SERVICES, INC.**

Mr. YELENIK. First, Mr. Chairman, and members of the staff, I would like to thank you for this opportunity to come before you and to try to relate to you the situation in the east New York area of Brooklyn and how we see that it has been affected by the FHA mortgage foreclosure syndrome.

First, I would like to start off by explaining a little bit about our office.

Our office was established for the purpose of representing indigent clients in civil actions. It provides legal services to a geographical area with a population in excess of a quarter of a million people.

The ethnic makeup of east New York is largely black and Puerto Rican, and the area consists mainly of two-family dwellings, many of which are subject to FHA guaranteed mortgages.

We are an atypical ghetto in New York City in that many of the dwellings were once four-family homes. Approximately one-half of the workload of our office is devoted to defending housing cases, and in the context of these cases the attorneys act through the legal process in attempting to combat the deplorable housing conditions which our clients are forced to endure, and the causation of the same.

By means of this experience, we have become involved in the FHA issue and the surrounding Government-insured mortgage foreclosure syndrome, which I referred to previously. We have discerned the effect of this syndrome upon both homeowners and tenants, alike, in east New York.

My involvement in this matter and the office's involvement leads us to conclude that FHA policies and practices have failed to implement the purposes of the 1968 National Housing Act, in that families of low and moderate income have not been given a bonafide opportunity to own and maintain their own homes, and I emphasize bonafide.

This failure has resulted in a multitude of mortgage foreclosures and, in turn, it has caused displacement of a large number of minority residents and an increase in the number of abandoned buildings in the area.

The displacement of a large number of minority residents and an increase in the number of abandoned buildings has contributed to urban blight and to the general deterioration of the neighborhood.

The National Housing Act of 1968, FHA was to help families with low and moderate incomes to purchase their own homes, Federal assistance is twofold. The FHA makes interest reduction payments to the mortgagee to reduce annual interest payments and guarantees the mortgage so that the prospective homeowner need only pay a small down payment.

The rationale, as I am sure you are aware, was based upon the theory that many of the national housing ills could be cured by extending to low- and moderate-income families the same opportunities for home ownership enjoyed by middle- and upper-income families.

Unfortunately, due to widespread abuses in two main areas, one of which is related to the sale of houses in substandard condition and the second of which is related to the sale of houses at inflated prices, the program has failed to attain its goal.

With reference to houses sold in substandard condition, since the inception of the Government insurance program under the National Housing Act, both statutes and regulations have provided for appraisal and inspection of housing prior to certification for mortgage guarantee. These provisions purportedly safeguard both the Federal Government and the purchaser-mortgagor from the danger of dealing with property whose value is inflated or which is in such poor condition that it will not last the life of the mortgage.

It has been the experience of a large number of low-income families in our area, who have purchased homes with FHA mortgages, to find serious defects in the property once they take possession.

The most common defects and deficiencies include faulty or incomplete plumbing, leaky roofs, flooded basements, cracked and falling plaster, faulty or inadequate electrical wiring, rotten or infested wood, and faulty or incomplete heating systems, especially boilers.

While it is the appraiser's and/or the inspector's obligation to report and the FHA's duty to see that all structural and other serious defects are rectified prior to certification, in reality this seldom occurs. It is a widespread practice for either real estate agents or private mortgagees to induce appraisers and inspectors to overlook items of repair or otherwise inflate the actual market value of the property. Since FHA has no practice itself of actual inspection of these properties prior or subsequent to their certification, a substandard house is, in effect, certified up to standard and the property is significantly overvalued.

In reference to the real estate speculation and these inflated prices, I may comment by saying that many real estate speculators have means of purchasing homes at extremely low prices, with money loaned from local mortgage or funding companies, having it appraised—these homes—at a much higher value, and finding a low-income family to purchase these homes with an FHA-guaranteed mortgage drawn on a local mortgage company.

We have seen this happen time and time again and some of these companies have in fact been cited and indicated by the U.S. attorney in New York City.

In order to have the homes assessed at double or treble their value, appraisers are bribed or otherwise induced to make such appraisals. Subsequently, a low-income family is located and talked into buying "their own home." This I would say in quotation, "their own home," because this is a carrot that is held out to minority groups in our area, the concept of owning anything that is their own.

They are then told that they will be able to purchase the house with a small downpayment and a promised FHA mortgage.

The prospective purchaser's annual salary does not equal one-half of the purchase price and is then falsified on the mortgage application. The application is then forwarded to the local mortgage company which steers the credit check through an affiliated credit company for financial clearance. Thus, ineligible buyers are approved and credit companies become implicated and act as a contributing factor to the real estate speculation fraud syndrome.

After the clearance, FHA approval of the mortgage is secured and the family becomes the owner of a home which they cannot afford.

The local mortgage company usually unloads the mortgage to Federal National Mortgage—Fannie Mae—or another Government agency, at a discount. It does not wait for the maturity of that mortgage.

Between the time of the purchase by the speculator and the time a buyer is located, the real estate speculator will often rent the apartment in the building to welfare recipients, thus collecting cash bounty from the department of social services.

In exchange for this bounty, the apartment will be rented at exorbitant prices and the speculator will provide little or no services while these tenants occupy the apartments. An example would be not to provide fuel in winter and, as you are aware, we have some cold winters in New York.

In some cases, the speculation begins with block busting which was alluded to previously, the concept of white homeowners being panicked into selling their homes by the threat of or the actual purchasing of dwellings by black and Puerto Rican families. Ugly scare tactics are employed and the homes are sold at much below their market value.

In areas of the community already inhabited by black and Puerto Rican—

Senator HART. May I interrupt, with an apology? Another vote is occurring on the floor and given time, if there is no objection, why don't you continue with this statement? Is there any objection to that?

Mr. YELENIK. I have no objection.

Senator HART. I will be back.

Mr. YELENIK. Thank you.

As I was saying, in the areas of the community already inhabited by black and Puerto Rican families, speculators point out the vast number of foreclosed properties or otherwise scare local homeowners into selling, so it is not just a blockbusting tactic in white areas, but it is also used in areas inhabited by minority groups.

Even though many attempts are made by unscrupulous agents and firms to cash in on the aforementioned abuses, a vast majority of these abuses could be thwarted if the FHA established a program to counsel the unsophisticated low-income person who has never owned a home and who has had few financial dealings.

In reference to the typical type of buyer that we have come in contact with, he is not on an equal footing with the agent, the seller or the speculator who is only interested in his respective commission or profit. The future homeowner lacks experience with regard to homeownership and he is unaware of the prospective costs of capital improvement, maintenance, repairs, cost of utilities, property taxes, et cetera.

Usually the only thing he is advised of is the amount of the monthly payments that he will have to make. At no time is the prospective owner's ability to cope with his new role appraised, nor does he receive advice as to home ownership.

Thus, it is not unusual to find the homeowner is budgeted so stringently that he is unable to meet his mortgage payments if one substantial repair, such as a roof or boiler, et cetera, is needed.

Even in cases of extreme emergencies, such as unemployment or serious illness, he is not informed of his right to relief, which is available under HUD regulations. The fact that if a homeowner is ill or has encountered some emergency he can be extended a deferred pay-

ment schedule in reference to his mortgage. The homeowner never learns of this right and is never educated as to this fact.

I would say that this withholding of information is almost tantamount to fraud, in that the failure to provide this information can result in a very serious situation and eventually in the foreclosure of the mortgage due to the homeowners inability to keep up his mortgage payments.

Consequently, when some of these people buy a home they are really purchasing a disaster, one which is not only personal, but which spreads like a cancer throughout the community.

In the East New York-Brownsville community, there have been over 1,500 mortgage foreclosures during the period of 1968 to 1971. These are primarily on two-family homes.

This means not only a loss of 3,000 dwelling units in an area which already faces a critical housing shortage, but results in a further deterioration of the neighborhood and the continued spread of urban blight in East New York and Brownsville.

After foreclosure, these houses are tinned up and left standing vacant. The houses are subsequently broken into, they are vandalized, they are stripped of their fixtures and piping, and they are left to become a deathtrap for children, a fire and health hazard, and a breeding place for addicts.

As the foreclosures increase, further selling to speculators occurs and neighborhood deterioration continues extending the urban ghetto from the downtown tenements to a section once composed and still composed primarily of two-family homes.

Thus, the Federal Government is left with thousands of shells for which it has paid out millions of dollars with the prospect of nominal recovery. The frustrated disappointed poor, the real victims who have been bilked, cheated, and exploited, are faced with another failure of the system, and the failure of a program which, if administered properly, could make tremendous strides in accomplishing the goals of the National Housing Act.

At this time, I would like to submit, as part of the record, several pictures of the homes which I have described in the East New York area, which I believe will vividly depict the situation that we now encounter. They are at various stages of mortgage foreclosure.



Peter Gardner and wife, parents of 11 children at 488 Vermont Street, East New York, March 31, 1972. House being foreclosed by FHA.

[Credit : Tony Rollo—Newsweek.]



Foreclosed house capable of rehabilitation.



Foreclosed house in early stages of destruction.



Totally destroyed block of foreclosed houses.

One of the pictures, you will note is almost of an entire block of homes. I believe that there are approximately 20 homes on the block, 14 of which are tinned up.

At this point, I would like to defer to my colleague Mr. Walters, and ask him to elaborate as to some of the case histories or horror stories, as we term them; some of the actual people who have been victims of this FHA procedure.

STATEMENT OF GERARD A. WALTERS, ESQ., EAST NEW YORK LEGAL SERVICES

Mr. WALTERS. My name is Gerry Walters. I am a staff attorney with East New York Legal Services, and I have been associated with the organization since September of 1969.

Over that period of time, through my daily work, I have come into contact with no less than 75 to 100 tenants and owners of properties with FHA mortgages.

The problems encountered are generally in the area of tenants being displaced after an FHA mortgage is foreclosed. The Federal regulations require that prior to collection of the guarantee, the mortgagee must have the foreclosed property vacated. This, in itself, adds to an already critical housing shortage in the community.

The second problem that we have are actual buyers purchases—mortgagors of FHA property which is being foreclosed. These mortgagors have generally no idea why the property is being foreclosed other than the fact they haven't met their payments. Initially they are told that they are supposed to keep up a certain monthly payment on their mortgages. They really have no idea of what their other responsibilities are.

As Mr. Yelenik said, it's a largely black and Puerto Rican community. Most of the residents of that community do not have any expertise in economic affairs or in affairs that deal with owning their own homes. They are not provided with counseling by the mortgagee, by FHA, or the real estate brokers, and in many cases they are almost in a situation where they are going to be forced into foreclosure as they purchase the house.

Now, these are just a few of the cases that I have dealt with since I've been in East New York Legal Services. I'm going to refrain from naming the parties involved because some of these cases are still in litigation. They will be supplied upon request if the committee so desires.

Mr. "B" was induced into purchasing a home on Vermont Street in East New York by a real estate agent who informed him that there were no existing apartments for his family of seven. He was originally seeking an apartment, and did wish not to purchase a home.

Mr. "B" was told that he could own his own home after giving a \$500 downpayment and that he would receive an FHA mortgage even though his annual salary was below the required amount for an FHA mortgage.

During the entire purchase proceedings, the only fact that Mr. "B" was told, and this is general throughout most of these purchasing agreements that I've been involved in, was that his new home would cost him a certain monthly amount, and that amount was, as stated before, the monthly mortgage payment.

Approximately 2 months after Mr. "B" and his family took possession of the house, he found that the roof was going to require extensive repairs amounting to \$1,000. He informed the real estate agent of that fact, and the real estate agent told him that he'd have somebody check it out for him.

Finally, Mr. "B" decided to make the repairs himself. This was after a couple of months. As a result, he could no longer make his mortgage payments. The mortgage was foreclosed and his family was evicted.

We have the case of Mr. "S", a carpenter who spoke very little English, a Spanish gentleman. He had no reading comprehension of English. And he was asked to make repairs on a house by a real estate agent. The real estate agent requested him to sign a paper which was written in English and he didn't understand it, and was told that it was a construction contract. Two months later, Mr. "S" was served with a summons and complaint and a mortgage foreclosure proceeding.

He had signed a bonded mortgage and the mortgage was being foreclosed for his failure to keep up monthly payments. His original comprehension of the contract was that he was signing a contract for the repair of a home.

Then we come to the case of Mrs. "J". She purchased a three-family house in East New York, on Pennsylvania Avenue, in January of 1968. In order to meet the purchase price, Mrs. "J" secured two mortgages, neither of which was Government insured.

On March 15, 1972, Mrs. "J" received a 72-hour notice of eviction from a New York City marshal which listed a Mr. "R" as landlord-owner of the premises in which she was living.

She brought the summons to our office, which was two blocks from her house, and I drew up papers to vacate the warrant of eviction.

Now, subsequent to the filing of the motion in civil court in New York, I received a phone call from the purported landlord's attorney.

He subsequently sent me documents. The documents that I received were a certification from the VA to Mr. "R" that he purchased and had obtained a certified VA mortgage and that he had purchased the house on December 23, 1971. Also included was a certification from FHA that a commitment was made to a Mr. and Mrs. "L", a Puerto Rican family, and that they had purchased the house in July of 1971.

The mortgage was being held by United Institutional Services Corp. The third document was a petition for nonpayment of rent; Mr. "R" was seeking \$1,600 in rent from Mrs. "J" representing the period August 1971 to February 1972.

Now, after further investigation, this is done by checking the deeds at the county registrar's office, I found that in 1968, a deed was recorded in Mrs. "J's" name, that in 1970, a deed transferring the property from Mrs. "J" to a "C" operating corporation was filed.

When I approached Mrs. "J" with a copy of this deed, I asked her whether or not she had ever made such a sale, and she said "No," and after comparing the signatures, I found that they were just so completely different that it couldn't have been hers. She denied any knowledge of the transaction.

There were no other deeds recorded after that time. She said that she had lived in the house since 1968, and she rented to two other families and that no other families in the house were Puerto Rican. I make that reference because the firm commitment to grant an FHA mortgage in July of 1971 was to a Puerto Rican family.

Mrs. "J" said she never received any summons and complaint instituting any foreclosure proceedings on her mortgage, and that the first paper she got after her original mortgage was a notice from the city marshal which said that she was going to be evicted in 72 hours.

On April 25, 1972, the return date of the motion in civil court, the landlord failed to appear. From the documents acquired, it seemed there was not only fraudulent transfer of Mrs. "J's" property, but that fictitious purchasers, Mr. and Mrs. "L," were granted an FHA mortgage, the status of which I have been unable to ascertain as to this date.

Had Mrs. "J" not been two blocks away from our office, she would have been out on the street today.

The last cases that I am going to present are cases of tenants who were living in FHA-foreclosed premises and who were evicted subsequent to mortgage foreclosure.

Mrs. "M" and her husband, her adult daughter, and 10 minor children and grandchildren, were tenants in a two-family house on Sheffield Avenue in East New York. The house was structurally sound and in good condition and the two apartments, both upper and lower floors of the building were occupied by the families.

The mortgage was foreclosed and they were evicted by the Buffalo Savings Bank who was the mortgagee, acting under instructions from FHA in March of 1972. They moved to a new house. They are currently living in one apartment which is not adequate for 13 people, and are paying approximately the same rent that they had paid for their former two apartments.

Their former residence has been tinned up and is currently standing vacant.

The last case is that of a Mr. "KC", who lives with his wife and seven children in a two-family house on Warwick Street in East New York. The mortgage has been foreclosed. They have an order from the State court to vacate the premises and are awaiting eviction while seeking unsuccessfully so far, to obtain other housing accommodations.

The house is now owned, or has been transferred to Federal National Mortgage Association and the "KC's" have not received any maintenance or services on their house since the mortgage has been foreclosed.

That concludes the case histories that I'm going to submit to the committee at this time.

Mr. YELENIK. Thank you, Mr. Walters.

If I may, the tenant, as Mr. Walters alluded to briefly, in a dwelling subject to the foreclosure of an FHA mortgage finds himself in a very precarious position, the reason being that this entire mortgage foreclosure process sometimes lasts for as long as a year and a half.

And during this time, the owner, if he was an owner, who was living and residing on the premises has abandoned the building, and if not, he's nowhere to be seen. Now, the result of this is that the tenant is left high and dry, high and dry in the sense that no services are provided to him, the essential services such as heat in the winter, the repair and reparation as to windows, windows which are broken, rat infestation. And this is the manner in which the tenant, who has been left behind, must live in until he's eventually evicted, which is another problem.

The eviction of tenants by FHA has come to our attention, and in order to rectify some of the injustices that the FHA tenant is currently forced to endure, our office has initiated an action which is now pending in the eastern district of the Federal court. Mr. Prosnitz has been quite involved in this litigation and he will briefly describe the action itself.

Mr. PROSNITZ. It is this action that involves a situation which I want to call to the careful attention of the committee because I think it involves one particular aspect of this problem which none of the other witnesses today have addressed themselves to so far.

So far today, we have been discussing, primarily, the plight of the homeowner who is victimized by this whole FHA situation. Now, this is a serious problem which has been very well dealt with by the other witnesses and I concur with most of what they have presented.

However, there is an additional facet of the problem which I would like to call to the committee's attention now. And these are the problems of the other innocent victims of this whole FHA situation. These are the tenants who are living in properties where the mortgages are foreclosed.

And as Mr. Yelenik stated, we have instituted an action which is pending now in Federal court. The title of the action is *Manners and Castanon v. Romney, Gullidge, Federal National Mortgage Association and Buffalo Savings Bank*. This is a class action pending before Judge John Dooling in the Eastern District Court of New York.

It is an action brought on behalf of all tenants who are being, or who have been, evicted from their homes subsequent to foreclosure of FHA mortgages on one to four-family homes.

Now, our decision to institute this action was based on the following circumstances: In the Brownsville East New York section, there has

been, perhaps, thousands of foreclosures in the 4 years in which the one through four-family house program has been in operation.

Subsequent to the foreclosures, the FHA's policy has been to evict the tenants from the houses in question, allegedly for the purpose of rehabilitation and resale. In actual fact, however, that has not happened. What has happened, in actual fact, is that the buildings have been left tinned up, standing vacant for several years, in many cases.

At the present time in East New York and in Brownsville, there are hundreds of these tinned up houses standing around vacant and useless, and the photograph which Mr. Yelenik submitted earlier, which the committee has, if you look at these houses, I think there's a photograph of one block which may have half a dozen, yes, that's it, Senator, I was just informed there are nine tinned-up houses on that one block alone.

And as you can see, many of those houses are structurally solid brick houses which, with a few minor repairs, certainly could be livable and could be used to lessen the housing shortage which is very severe, especially in New York.

Senator HART. May I interrupt? Is the eviction, prior to turnover, required by law?

Mr. PROSNITZ. No; it is not. It is a regulation. The regulation provides discretion. As a matter of fact, the regulation provides that the Commissioner has the discretion to accept the properties, either vacant or tenanted.

This is one of the contentions in our lawsuit, that FHA insists the tenants be put out. It is our position, it is unsound from the standpoint of humanity and from the social standpoint, providing a place to live for the tenant. It is unsound from the HUD economic standpoint. We say it is unsound because the houses become vandalized and deteriorate in value and the government ends up selling them for less money than they would have gotten.

From another standpoint, it is unsound economically because many of these tenants are people on welfare. Because of the housing shortage, when they are evicted from these houses, they get placed into other houses where the rental may be twice as much, and if they are on welfare, part of the rent is being paid by Federal funds. Incidentally, in Boston, we understand that the FHA local office has adopted a policy of keeping many of these tenants in.

Now, actually, what we are concerned with is a whole period of 2 or 3 years. In other words, what happens—and I'd like to give, briefly, the whole chronological background.

First, the mortgage is foreclosed. And at the point where the mortgage is foreclosed, the owner, who is already in trouble because he cannot meet the mortgage payments, is highly unlikely to be making any repairs on the premises, so the building starts to go downhill and nobody makes any repairs.

Then, after the foreclosure sale, the banks, or Fannie Mae, or whatever mortgage company happens to be involved, takes over the property. And we have found that the lending institutions, which now are the owners of the property, having bought in a foreclosure sale, we've found that they do absolutely nothing to maintain the properties.

They don't collect rent. The tenants have to buy their own fuel. The tenants have to fix whatever needs to be fixed, so nothing gets done on the properties; they just stand there.

Then, eventually what happens is that the banks, who now own the properties, acting—or Fannie Mae, which is in the same category as the banks—acting under instructions from the FHA, they proceed to evict the tenants by obtaining a writ in State supreme court. And they evict the tenants prior to conveying the deed to the FHA.

Now, there is one interesting wrinkle in this. In the cases of the two-family houses, the banks proceed to evict the tenants first, and then convey title to the property to the FHA. In the case of the three or four-family houses, in New York City, most of the three or four-family houses are rent-controlled under New York City law.

Under the New York City and State rent control laws, tenants may not be evicted from rent control property. However, there is an exception. Property owned by the Federal Government is not subject to rent control.

So, in these cases, the banks convey the deed to the FHA before eviction of the tenants. Very often, the very same attorney who used to go into court on behalf of the banks who evict the tenants, now puts on his other hat, goes into court on behalf of the FHA, which now holds title to the property, and proceeds to evict the tenants.

Then the property is vacant and no longer subject to rent control, so that, in effect, the FHA is helping to circumvent the New York City rent control laws.

Now then, the FHA says that they are evicting tenants for purposes of rehabilitation and resale. In practice, what we have found has happened is that the properties are neither rehabilitated nor resold immediately, and many of these properties just stand there vacant and unused for many years, for several years, and as you can see by the pictures, or if members of the committee were to go through East New York, you would see hundreds of tinned-up houses in East New York.

Now, during the time that they are tinned up, the houses are frequently vandalized by drug addicts and other criminals. In addition, the presence of the vacant and deteriorating houses has a pyramiding effect on the community. Often the blight from these houses spreads to the surrounding dwellings and the whole block deteriorates. And, in fact, East New York, which used to be a rather pleasant middle class area, has become a blighted area in recent years, partly as a result of all of these abandoned houses.

Now, our position is that the FHA should allow the tenants to remain in these houses, whenever possible, after foreclosure and that every attempt should be made to rehabilitate and resell the properties with the tenants in occupancy, possibly moving the tenants to temporary quarters during a rehabilitation period.

In other words, much of this rehabilitation could be done in a few days in which tenants could be moved from one side of the building to the other, or from one building to another building a block away, and then move back in a few days later.

We also feel that the FHA should arrange to have a receiver appointed during the interim period, between the commencement of the foreclosure proceedings and the eventual sale to a new owner; the idea being that said receiver would manage the properties, collect the

rent, maintain the properties so that they will not deteriorate, and will remain fit for future occupancy.

This, of course, would also save the Government money, both because rents would be being collected, and also because with the houses being maintained, when the FHA comes to sell the property to the new owner, they would get a higher price.

Now, I'd like to describe, briefly, some of the theories which we are presenting in our lawsuit. As I stated earlier, we are suing on behalf of the right of tenants to remain in these houses and not being evicted by the FHA.

Our first theory is that the Federal courts have held in several recent cases, that public housing authorities may not evict tenants without establishing good cause and without affording tenants due process. In other words, a fair hearing.

We contend that the same standards should apply to evictions undertaken by the FHA. Incidentally, one of the leading cases in the field, in our area, which is the second circuit, is *Escalera v. New York City Housing Authority*, where the second circuit said that even though a tenant's lease is up, the housing authority may not evict the tenant without good cause, and the tenant has a right to a hearing at which witnesses will be presented and good cause for eviction must be proven.

Now, we say the same thing should be required of the FHA, and we say that the fact that the actual eviction is handled by the banks makes no difference because the banks are really not private parties here, they are acting under instructions from the FHA.

Furthermore, they receive Federal financial assistance from the FHA, the financial assistance being the fact that the FHA is guaranteeing their mortgage. Therefore, we say that the tenants are entitled to due process and a statement of reasons and a fair hearing before being evicted.

Secondly, we say that the actions of the FHA in evicting tenants from sound housing, adding to the housing shortage and adding to neighborhood deterioration and urban blight are arbitrary, capricious and abusive discretion, and in violation of the policies of the National Housing Act.

Therefore, the court may enjoin said policies in accordance with the Administration Procedure Act, which was passed by Congress for the express purpose of permitting aggrieved parties to obtain judicial review of arbitrary agency action.

Thirdly, we say that tenants who are the victims of these policies are predominantly black or Puerto Rican. This is mainly in ghetto areas that these foreclosures, which we have been talking about all day, occur.

Now, because of their race and their poverty, they find it very difficult to obtain new housing, thus, in effect, the FHA policies and practices have a racially discriminatory effect, and that they serve to create additional difficulties in obtaining housing for a predominantly black and Puerto Rican class of tenants.

Now, these three theories all refer to the effort to permit tenants to remain in the premises. In addition, some tenants have already been evicted and we claim that the tenants who have already been evicted are entitled to relocation benefits under the Uniform Relocation Assistance Act of 1970.

Without going into a long discussion of that act, it's a new act and the courts have not fully interpreted it yet, but there is a possibility that the courts may hold that the thousands of tenants who have been evicted by the FHA are entitled to relocation benefits which would cause an additional expense to the Federal Government.

And frankly, we are not out to have the Federal Government shell out a lot of money here, we would rather have them save the money and keep the tenants in the houses in the first place so the tenants can have a place to live.

At this point, I'll turn the microphone back to Mr. Yelenik who I believe is going to describe a proposal which we have prepared to alleviate some of these problems.

Mr. YELENIK. Thank you, Mr. Prosnitz.

Our office has prepared a proposal which we plan to submit to the FHA regional office in New York with the intention that it form the basis for written agreement between FHA, the New York Urban Coalition and East New York Legal Services.

It is hoped that the implementation of this agreement will serve to alleviate some of the abuses and deficiencies of the current program, and also protect homeowner and tenant alike.

Furthermore, some of the suggested changes included in this proposal might be utilized for the purpose of amending current regulations or for forming the basis for new legislation.

Basically, the proposal deals with three main areas: One being the premortgage contract and counseling of prospective purchasers; the second part, dealing with FHA premortgage procedure and post-mortgage servicing; and the last part, property management and maintenance during foreclosure, including the dispositions of property.

Just to touch the highlights of the proposal, it would include a mandatory counseling program which would require that every purchaser receive counseling from certified FHA counselors as to qualifications of the buyer-mortgagor, subsidies, warranties, the role of the parties involved—such as the funding companies, the mortgagee, et cetera—the contract itself and its significance.

In addition, it would be required that bilingual contracts be provided where necessary. The mortgage counselors would explain the mortgage foreclosure procedure, which most minority buyers in our area really have no cognizance of; the right to forbearance relief, which I alluded to before and I reemphasize now.

Senator Hart, I believe you were out at that time.

What I alluded to was that there is a regulation which entitles a mortgagor to forbearance relief in case of emergency or illness. And this is never brought to the attention of these homeowners, and should there be an emergency, should there be an illness in the family or loss of a job, the mortgagor will default and the mortgage will be foreclosed. And they will be summarily evicted just because they don't have that knowledge.

So, I emphasize that point.

And lastly, I think that there should be a grace period when the buyer-mortgagor could decide whether or not to go forward with the contract itself. It would be a short one. And the better the counseling program, the shorter the grace period could be.

In reference to FHA procedures, inspection and appraisal, the evaluation should not only take into account the assessed value and

the market value, but the actual value of the property based upon the conditions itself, the structural defects, et cetera, and this is rarely done.

In addition to that, copies of these reports of the conditions of the home should be given to the prospective buyer. This is also rarely done before the granting of the mortgage itself.

And then, there should be a reinspection of the premises within 3 months of purchase to determine if the buyer is there or whether the house is just being used for real estate speculation.

In addition, in the case of a mortgagor's default, the mortgagee should inform the mortgagor in writing of the default, the reason for the default, how he may cure the default and the right to foreclosure relief.

And as to the foreclosure, a procedure should be established to give owner and tenant alike, adequate notice in accordance with due process as to the proceedings. Specifically in the case of the tenant, written notice should be given by FHA that they desire the house to be transferred vacant and the reason for it.

In addition, the tenant should be advised of his right to a hearing and the mechanics of same. Hopefully, this proposal, if accepted, will provide for a hearing and perhaps alleviate the necessity for granting us part of the relief for which we are seeking in our lawsuit.

If, after the hearing, the tenant is displaced from this foreclosed property, an allowance should be given to him in accordance with the Uniform Relocation Assistance Act of 1970.

Lastly, the final part of the proposal deals with property management during foreclosure and subsequent to property disposition.

We are trying to work out a procedure whereby New York Urban Coalition would be appointed receiver at the outset of the mortgage foreclosure procedure so that they could act to collect the rent and possibly maintain the premises.

As I stated before, these procedures sometimes take 18 months, and the people living within these houses, during that period of time, are not provided with any services.

In the case of the East New York area, in addition to that, we would hope that the urban coalition, if they were interested, could purchase some of these properties from FHA. Mr. Thomas spoke of this previously, that they would purchase it from FHA as a not-for-profit corporation, and thereby, in a sense, alleviate the housing situation in East New York.

Mr. Senator, and members of the staff, I hope that we have given you what we feel is an accurate picture of the mortgage foreclosure process, from the foreclosure to the deterioration of neighborhoods and to the resulting urban blight.

And to reiterate what I stated at the outset, the goals of the National Housing Act to provide decent housing for all Americans, and to extend to low-and moderate-income families the same opportunity to own their homes as those more fortunate are not only valid purposes but necessary ones.

This program has the potential to achieve the aforementioned goals, but it must be properly administered. We feel it has not.

We thank you for your time and courtesy.

Senator HART. As you described it in East New York, it certainly has not—I have been leafing through some of the materials that I missed.

Mr. Blum?

Mr. BLUM. Are there situations that you are aware of, with a mortgage and foreclosure and no rent legally due to anyone, where someone has collected rent illegally which have come to your attention?

Mr. YELENIK. Yes, we have had on occasion people who come into our office and question us as to who they should pay their rent to. They have been called by a bank that the mortgage has been foreclosed. They don't know where the owner is. A man comes in and he says, "I am the owner, pay the money to me." This happens time and time again with multiple dwelling as well as one- to four-family homes.

Mr. BLUM. When someone comes in with a notice saying he is to be evicted for nonpayment of rent, do you routinely try to check to see if someone has the right to collect rent?

Mr. YELENIK. Yes, we do.

Mr. BLUM. How many times do you discover he doesn't?

Mr. YELENIK. Quite frequently, to his embarrassment.

Senator HART. In your situation, is FHA one in 10?

Mr. YELENIK. I would say it is one in 40. If it was one in 10, we would have a much worse situation than we do presently.

Mr. PROSNITZ. There is a related situation to that which we found. Under the FHA program, mortgages, FHA mortgages are supposed to be granted to low income persons who intend to occupy the homes. Very often, what we found was that a real estate speculator will use a low income minority group person as a front, get that person to put his name up, buy the home, and in reality, that person has no connection with the building, and the real estate speculator is the owner even though his name has not been given for purposes of obtaining the FHA mortgage.

So then, the real estate speculator proceeds to collect the rent because he is the one who actually bought the property, even though the owner of record on the deed is a minority group person, who in actual fact, was just a front used by the real estate speculator who never went near the property.

Mr. BLUM. Are any of those cases ones in which you have verified the real estate speculator who has done that? Have you specifically identified a real estate speculator in New York?

Mr. PROSNITZ. We have suspicions. We don't have a legal proof. This is something which the Criminal Division of the U.S. attorney's office is looking into.

Mr. BLUM. Have any of the real estate speculators been told to sign things in blank and have they, in effect, been asked to commit some sort of fraud?

Mr. YELENIK. Yes, we have heard stories in that vein, the story Mr. Walters alluded to of a carpenter who was asked by a real estate agent to fix a house, not his house, was told to this carpenter, who had no working knowledge of English, very little reading comprehension, to sign this form, which he was told was a construction contract, and subsequently, within 2 months was served with mortgage foreclosure papers for a house he never owned.

Mr. BLUM. It is perfectly clear he was being induced into a fraudulent purchase of the house subject to an FHA mortgage.

Mr. YELENIK. No question about it.

Mr. BLUM. Likewise, the case Mr. Walters mentioned of the lady who owned the house was being evicted, and discovered there was a forgery, then, the entire transaction must have been fraudulent.

Mr. YELENIK. Yes. Apparently, there were several subsequent owners after the time she purchased. She had no knowledge about any of them. One of the owner-mortgagors had been granted an FHA mortgage.

Mr. BLUM. Have the details of this case been turned over to the U.S. attorney's office?

Mr. WALTERS. The case is still in litigation in civil court in New York. We haven't turned it over to complete our action.

Mr. BLUM. Are you waiting for your action to be complete, before you turn it over?

Mr. WALTERS. We haven't ascertained all of the information yet.

Mr. YELENIK. I think we would like to be sure before we turn it over to them. We have our suspicions.

Mr. BLUM. It must be extremely difficult for your office to try to investigate what the facts of each of these cases are. What problems have you confronted trying to get to the bottom of this?

Mr. YELENIK. Initially, it is very difficult in the sense that we are mandated to cover a geographical area which includes over a quarter of a million people. We are six attorneys, and you can imagine, just by playing the numbers game, how difficult it is to try to ascertain some of these facts, to try to follow up on it.

But in the field of FHA and housing, we have made that one of our priorities and hope that we can continue to do so in the future, and to assist this committee and the people in east New York.

Mr. PROSNITZ. I want to add something to that. In the course of our lawsuit, we served the FHA with numerous interrogatories asking them for detailed civic information about the several hundred foreclosures which have taken place just in the Brownsville and east New York section of Brooklyn, and the reply which we obtained from the U.S. attorney who was representing the FHA was that it was unduly burdensome to give us this information and that it would take four people working 8 hours a day for 30 days to obtain this information.

Now, from this, I draw one of two conclusions, that either the FHA is playing games with us and doesn't want to give us the information or that they've been managing their operation in such an incompetent manner that they don't really know what's going on in the New York area, and that—in other words, it is my feeling that if it would take them that many man-hours to gather all of this information about 600 foreclosures which should be right in their records, their operation must be a complete mess and they don't know what they are doing.

Either it is that or they just don't want to cooperate with us and give us the information. I would say, though, that since this committee has been investigating the whole FHA area, we get a feeling that we are receiving more cooperation than formerly, and we do feel that congressional pressure is a powerful weapon to help an agency improve its management.

Senator HART. Mr. O'Leary?

Mr. O'LEARY. Mr. Yelenik, with respect to the mortgage companies whom you have described in your statement, in your area, eastern New York, are these principally those that have been mentioned earlier; namely, United, Inter-Island, and Eastern Services?

Mr. YELENIK. Yes, the three names you usually hear.

Mr. O'LEARY. I assume there are other mortgage companies that do business in your area, but these are the three largest?

Mr. YELENIK. Yes, that's correct.

Mr. O'LEARY. Earlier in your statement, you say, there is a widespread practice for the real estate companies to bribe or otherwise induce the speculators to otherwise inflate the property.

One of the things that has been of interest to the staff since our experience in Boston, given the nature of this market, it seems that it is in everyone's interest to have the appraisal come in high; namely, the greater the amount of mortgage, the more the funding company makes; the higher the sales price, the more the real estate broker makes in commission, the more he makes as a speculator if he has previously bought the property himself.

In effect, the FHA appraisal fixes the price. If there is a conspiracy to fix that price high, those of us on the staff have speculated that perhaps all those buyers and all those sellers in that changing neighborhood might have a cause of action.

It is a theory that we have been searching to find the proof of. Unfortunately, we have not found it.

Since it would seem that it is in everyone's interest that such an agreement expressed or implied might exist, do you have any reaction or do you share my feeling that it is out there somewhere waiting to be found?

Mr. YELENIK. I totally share your feeling, and your reference to the Sherman Act is interesting. I think it should be locked into.

Mr. O'LEARY. Thank you, Senator Hart. Mr. Chumbris?

Mr. CHUMBRIS. Thank you, Mr. Chairman.

Prior to the act of 1968, did you have problems similar to the ones you related to the subcommittee, or related this morning to the subcommittee?

Mr. YELENIK. I really can't answer that question directly in the sense that the office was only established in 1968 and I have only been there since 1970. I really can't answer that question.

Mr. CHUMBRIS. We noticed that the situation in Boston—I believe testimony shows that the original plan of banks getting together and putting up a fund, was created back in 1962. And it carried on for a while and, for some reason, the plan was put aside and was renewed again about 1967 or 1968, so there were problems in Boston that go back further, prior to the 1968 act.

I'm just wondering what you ran into and if you ran into any cases that preceded the 1968 act or whether because of the 1968 act to try to help the low-income people, this was an opportunity for someone who thought they could make a fast buck and take advantage of the situation.

Mr. YELENIK. Yes. If I may just comment on the act itself, I don't think it is a result of the act, I think it is the result of the administration of the act and the implementation of the act. I think the purpose of the act is well taken.

Mr. CHUMBRIS. Yes. I'm not trying to be critical of the act at all. My point is that the act did provide to help low-income people, and because of that, did that open up an opportunity for someone who could see a way of getting around the law and use the shenanigans that has been used in the cases as related to us in inducing possibly persons who are connected with the Government itself to overlook the requirements inspection and proper evaluation of property? I am just wondering.

Mr. YELENIK. I don't think the act itself opened up a Pandora's box. I think that the careful scrutiny of the act would have provided the desired result. In other words, the proper implementation of the act itself would have provided the result. It is hard to judge, since in my opinion, it was not properly implemented.

Mr. CHUMBRIS. Perhaps we are not having a meeting of the minds. Perhaps you are trying to read into something that I have made an inference that the act itself is creating a problem.

Mr. PROSNITZ. Maybe I could respond. I agree with Mr. Yelenik. I don't think there is anything in the act itself which creates a problem. You don't need any acts of Congress to create corruption. It has nothing to do with the act.

But I think that it is the administration of the act. I think that what you need is an agency which will ride herd on all of these speculators much more so than has been done.

And actually, we are dealing with a program which has only been in existence since 1968, a program of one- through four-family houses, but in the main, I'd like to repeat what one of the speakers said this morning, which is, we are not interested in assessing blame, we are interested in correcting the situation.

Most people agree that the program has not been administered well, whose fault or which party's fault, I don't think is relevant, particularly. But I think the thing is to clean up the situation now, and for this committee to use its congressional influence over the executive branch to help get the situation cleaned up.

Mr. CHUMBRIS. I see no reason to pursue the point any further, but you have answered what I thought I would like to get into the record. Thank you.

Mr. Blum?

Mr. BLUM. East New York has become a neighborhood referred to by many as a welfare haven because of the large number of people in it on welfare. I wonder if any of you have had particular experience with the welfare relocation programs, and perhaps seen active use by brokers in those programs for turning houses over to collect a relocation payment or commissions from the Welfare Department.

Mr. YELENIK. This particular procedure has come to our attention. I think I alluded to it briefly in my statement. There is a bounty paid by the department of social services for relocation, and the cunning speculator can grab a house at a low price, fill it with welfare recipients, collect the bounty, and since they have no lease, he might try to bring a holdover proceeding against them, put them out, go on to another welfare family, and the syndrome continues.

Mr. BLUM. Each time collecting the bounty he gets from the welfare department?

Mr. YELENIK. Yes.

Mr. BLUM. This aids him in chasing out the remaining neighbors.

Mr. YELENIK. That is certainly true.

Mr. BLUM. Have you discussed that problem of foreclosure with officials of Fannie Mae?

Mr. PROSNITZ. Yes. Here again, in connection with our lawsuit, we have discussed—we had a conference at which all of the parties of the lawsuit were invited. The only people who appeared on the other side were the FHA.

Now, when we have spoken to Fannie Mae's lawyers, they say they will do whatever the FHA tells them to do. In other words, if the FHA says, throw the tenants out or keep the tenants in, they will do it.

And here, Fannie Mae is acting—is in the same position as the banks, they are just following the lead of the FHA. That's why we feel the solution is with the FHA.

In other words, for example, if the FHA tells the bank to give forbearance relief and to allow a certain homeowner to make deferred payments on his mortgage because maybe the homeowner was injured and has to stay out of work for a while, and as a result could not keep up with his payment, and if this man applies to the FHA for forbearance relief, and the FHA instructs the banks to give him forbearance relief, then they will go along. I think the main way to attack the problem is through the FHA.

Mr. BLUM. In your conversation, Fannie Mae has said it is the instrument of FHA and it will do whatever FHA wants, in effect?

Mr. PROSNITZ. They don't say it exactly in those words. That's the impression one gets in dealing with them.

Mr. BLUM. In a house that isn't for foreclosure, who has the responsibility, legally, for making repairs? Does anyone?

Let me put that question another way. If a bank appointed a receiver and began collecting rents, would he have any more responsibility than if it did not appoint a receiver?

Mr. PROSNITZ. Legally, and in New York State law and in the New York State Building Code, the owner of a house is legally responsible.

In other words, up to the date of the foreclosure of a sale, the outgoing homeowner is legally responsible. Of course, he is losing his house, and he can't really be expected to do anything.

After the foreclosure sale, usually the bank buys the property and holds it for several months until it is conveyed to the FHA.

Now, during that period of time, the bank, as the legal owner, is legally responsible for maintaining the property. In fact, they don't do so. We're contemplating bringing actions against the bank to tell them to maintain the property. We decided against it because we felt that if we brought such an action, the banks would throw the tenants out even faster.

So we feel that the way to attack this problem is, first, to establish procedures by which tenants stay in the houses, and then, establish procedures by which the properties are maintained.

Now, since the banks are not in the housing business and don't have the facilities to maintain property, the best solution would appear to be to have receivers appointed who would maintain these properties during the interim period.

Mr. YELENIK. If I may just comment further on that. It is not only important to have a receiver named by the court but to have that

receiver appointed at the outset, because as I stated before, this procedure can take as long as 18 months.

Now, during that period of 18 months, just imagine what can happen to a dwelling that is not maintained. So this is one of the hopes that we have with this particular proposal, to have the Urban Coalition—New York Urban Coalition—appointed as the receiver at the initial stages of proceeding, and it would be their obligation to maintain the premises, collect rents, and generally to look after the house itself.

Mr. BLUM. I have no further questions.

Senator HART. I want to thank you very much. I'm sorry we had to go so deeply into the day.

Mr. YELENIK. Thank you.

Senator HART. Thank you.

Thank you for coming.

The committee adjourns to resume at 10:30 a.m. Wednesday in this room.

(Thereupon, at 6:37 p.m., the subcommittee recessed, to reconvene at 10:30 a.m., Wednesday, May 3, 1972. Testimony resumes on p. 185.)

Material Relating to the Testimony of Allen Hessel

EXHIBIT 1

New York Times Article From Real Estate Section of October 24, 1971. "In Praise of Laurelton"

IN PRAISE OF LAURELTON, OLD HOUSES GOOD BUYS IN QUEENS

(By Jerome Siegel)

(Mr. Siegel, a native of Brooklyn, is a teacher at Junior High School 263 in Brownsville. He is a graduate of Brooklyn College.)

Laurelton is a small area in southeastern Queens near the Nassau County line. It has been in the news recently in a tangential way.

The Secretary of State and the Commission on Human Rights have initiated investigations of "block-busting" in three areas of New York City. Laurelton is one of them. The investigations, it is hoped, will lead to state orders against solicitations by real estate brokers and speculators.

Unfortunately, little can be done by government to distract the feverish eyes of profit. The history of any "changing" neighborhood makes a mockery of professed liberalism and decency, Laurelton grows steadily out of balance.

All well-meaning talk aside, there is only one way to save a place like Laurelton from turning totally black. White people must not leave in droves, and they must encourage other whites to move there. My point here is to encourage whites who now live in segregated white suburbs in other parts of the city to move to Laurelton.

My wife and I moved to Laurelton in the summer of 1968 from Hempstead, L. I. We thought it was a good location since my wife was teaching in Long Island and I was teaching in Brooklyn. For our purposes Laurelton is centrally situated. It is close to all parkways.

At the same time, Laurelton was about half white and half black. We were advised by many brokers to stay away, although some did show us houses there, possibly because my wife is Puerto Rican.

We found that quite a few houses were for sale, so we decided to dispense with brokers and go knocking on doors. We concentrated on attached Tudor-style houses, but we could have chosen a Spanish ranch or a Colonial or a detached brick house, all with large grounds.

Aesthetically, Laurelton is on a par with more expensive areas. We finally found a house to which very little had been done in the way of decorative disasters and bought it for \$21,500, with a 10 per cent down payment. We still had some

money left over to make improvements. Fortunately, we knew a former plumber of considerable talent.

Now understand, the house was not in need of overhaul, only some minor modernization. It is brick and stone and concrete separates it from neighboring houses. It has rough-textured plaster walls and the floor beams are three feet thick and 12 feet long. The huge sunken living room has exposed ceiling beams and leaded stained-glass windows.

Two steps lead into a large dining room with a large and sunny eat-in kitchen hard by. Our numerous plants are thriving.

There are two functioning brick fireplaces one in the living room and one in the wormwood paneled basement.

Upstairs there are two large bedrooms and one small one. One of the bedrooms has a window seat and leaded glass windows. The huge bathroom has a stall shower as well as a bathtub, and the floor and walls are of stone tile. All the fixtures are cast iron.

There is a small yard in the rear reached by either the back entrance to the basement by a kitchen porch or by the community drive where the semidetached garage is situated.

When we moved in we changed the wiring and put in new outlets for air-conditioners and other major appliances. We tore down two walls to make an additional entrance to the kitchen and to make a passageway between the kitchen and dining room. We put tile on the dining room and kitchen floors. We painted the whole place inside, using white and yellow. We installed spotlights in the yard and garage and changed the kitchen sink and counter.

All these improvements cost us about \$2,500. You might say that the total cost of the house was \$24,000, but sometimes we think that if the same quarters were on the Upper East Side, they would be worth four or five times as much.

But they aren't. This is Laurelton, and there are black people in Laurelton. We don't remember ever having better neighbors. If some white people move in, Laurelton could become racially stabilized.

Here are a few numbers. Our monthly housing costs—including bank payment, taxes, heat and utilities, and deducting tax breaks—are about \$175. For those who come to Laurelton now the cost might be slightly higher because the value of the houses has gone up. This is in defiance of the old myth about black influence on property values.

People who are tired of paying \$200 a month or more for three rooms might well look at Laurelton. It is a good place.

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EXHIBIT 3

Correspondence Between Mr. Hessel and Mr. Ed. Raff, Concerning His Foreclosed Home

LAURELTON AREA, NEIGHBORHOOD ACTION PROGRAM,
Laurelton, N. Y.

DEAR MR. HESSEL: We purchased our home at 135-09 231st Street approximately two and a half years ago. At the time we were interested in renting but the broker talked us into this deal. When we moved in the house had been empty for approximately eight years. The owners had retired and built a home elsewhere. He only used the house for one or two weekends a month. By the time they finished clearing it out and we moved in the house had been completely stripped down to and including the kitchen appliances and even cabinets.

Naturally, with all the unexpected expenses we found ourselves in a financial bind.

With one thing and another we fell behind in payments and the house was advertised in the newspaper for foreclosure. We contacted the bank in an attempt to settle but they would not agree.

We then started receiving continuous telephone calls from a Mr. Leonard who represented Fifth Avenue Realty and Honey Properties located in Cambria Heights. He kept saying he could save the house and finally in desperation I went to his office. They (Mr. Leonard, Mr. Glass and Mr. Rappaport) offered to give us five hundred dollars and let us stay in the house for sixty days. I refused and the next offer was to give us a second mortgage to cover the payments due plus the inevitable judgements which usually follow along with this type of situation. This was to be repayable in five years. I agreed to this arrangement. They told me there would be papers to sign and they would contact me. Although I called repeatedly nothing was forthcoming. About one week before foreclosure they called and really kept me busy on the phone and running back and forth to their office. Each time I was called to the office for another signature it was "necessary to come right over because it was something they forgot and the whole deal was in jeopardy. Believe me, the last few days they kept me running back and forth so much I really lost track of what I was doing. This may be hard to believe but the pressures were quite intense. The night before foreclosure I was again called about something they forgot and was told that without this last signature they could not go ahead and that they hoped there was still enough time to save the house. Well, it seems they had no trouble reinstating the mortgage with the bank. It also seems that some of the judgements listed against me were not actually mine, for example, one from a physician for approximately several hundred dollars.

The agreement for the second mortgage amounted to five thousand dollars. They said this would cover all emergencies and that the note would be adjusted after everything was finished. Of course this was never done.

It seems what I finally signed was an agreement to sell them the house for one dollar: An agreement that they would return title to the house to me after five years (upon repayment) and an agreement to pay regular mortgage payments of one hundred seventy seven dollars per month plus ninety two dollars per month covering the second mortgage in addition I was to pay a lump sum of two thousand dollars. All this totals a repayment of seven thousand five hundred dollars on the second mortgage of five thousand which should have been adjusted down to about twenty five to three thousand dollars.

I was also told by Mr. Leonard that I could make my monthly payments by getting him about three families per month who were interested in selling their homes. He stipulated that these families must be white.

During one of our visits Mr. Rappaport told me, partly because I was in his office during receipt of a long distance call, that he had many other deals cooking. It seems he also arranges for a five thousand dollar fee that a union be taken off the back of a business owner when they are trying to get the employees to organize.

I also find that although I am paying the first mortgage all tax benefits realized will go to them.

There are many additional things I could go into and if necessary I will. However, I feel that the most important parts have been covered.

ED. RAFF.

EXHIBIT 4

Report No. 1, CCHR Research Library, "New York City's Racial Distribution"
by Harold Goldblatt

CCHR Research Library

Report No. 1

NEW YORK CITY'S

RACIAL DISTRIBUTION

by HAROLD GOLDBLATT



THE CITY OF NEW YORK COMMISSION ON HUMAN RIGHTS

JOHN V. LINDSAY
Mayor

WILLIAM H. BOOTH
Chairman

DAVID H. LITTER
Vice Chairman

Research Report No. 1

**Trends in the Racial Distribution of the
Population of the City of New York Between
1950 and 1957: An Ecological Analysis**



First issued, 1959

**TRENDS IN THE RACIAL DISTRIBUTION OF THE
POPULATION OF THE CITY OF NEW YORK
BETWEEN 1950 AND 1957:
AN ECOLOGICAL ANALYSIS**

Harold Goldblatt

This survey of trends in the racial distribution of the population of the City of New York was made possible because both the decennial census of 1950 and the special census of 1957 reported the racial composition of census tracts. The Planning Commission of the City of New York computed the racial proportions of the population in each census tract for 1950 and also for 1957. What follows is an ecological trend analysis in which the census tract is the tabulation unit. The organization of the report is as follows: first, a description of the situation as of 1950 for the city as a whole and for each of the five boroughs separately; second, an analysis of the extent of change, again for the city as a whole and for each borough separately; and, finally, a description of how matters stood in 1957.

I

Approximately half the census tracts in New York City were exclusively white in 1950 (Table I). Manhattan had the smallest percentage of all-white census tracts (7.69%) and Queens had the largest (60.48%). The other boroughs ranked between them, in this order: Richmond, 39.47%; The Bronx, 43.85%; Brooklyn, 51.42%. (See Appendix Table 1.) Therefore it can be stated that in 1950 fewer than half of all the census tracts in the city as a whole were all white. This was true also in three of the five boroughs.

TABLE I

Proportion of Nonwhite Population in
New York City Census Tracts, 1950

Proportion of Nonwhites in Census Tracts	Proportion of Census Tracts
None	47.02%
Less than 1%	26.82
1 - 9.9	15.66
10 - 24.9	3.65
25 - 49.9	2.43
50 - 74.9	1.66
75% or more	2.76
Total Tracts = 100%	(2,465)

Caution is required in interpreting these figures in a segregation-desegregation context. In the first place, the segregation-desegregation pattern is a continuum at any given time, and where to draw the line between the two parts is a matter of arbitrary choice. In the second place, the proportion of nonwhites residing in mainly white areas under conditions of socio-economic inequality with the white residents—that is, Negroes holding jobs, such as those of building superintendent or domestic servant—is unknown. It will be noted (Table I) that the racial distribution of the total population of the city in 1950 was skewed strongly to the left with decreasing proportions of census tracts in each succeeding category except the last one. The modally typical distribution for the city as a whole (see Table I) was the all-white census tract, for 47.02% of all the census tracts were in this category. The distribution for Brooklyn, largest of the five boroughs, most closely resembled the distribution pattern for the city as a whole. (See Appendix Table 1.) Manhattan departed from the pattern in being the only borough where the single largest proportion of census tracts (41.96%) had nonwhite residents but only in the proportion of less than 1% of the population—and the census tract having a nonwhite population of less than 1% was the modally typical census tract for this borough. Manhattan also was the only borough that had a substantial (12.24%) proportion of census tracts having 75% or more nonwhite residents. Richmond, too, departed markedly from the city pattern in having an unusually large

proportion of tracts with a 1-9.9% representation of nonwhites and no tracts with 50% or more of the population nonwhite. The Richmond distribution was thus bi-modal.

The slope of these distributions describes crudely the extent to which racial segregation was the custom in the City of New York in 1950. A bell-shaped or normal curve would be more characteristic of desegregation. It is quite clear that of all the boroughs Manhattan alone approaches this type of curve. A final set of figures on this point: For the city as a whole, 89.50% of the census tracts had nonwhite populations in 1950 that were smaller than 10% of the total populations of the census tracts. The comparable statistics for each of the boroughs were as follows: Manhattan, 75.17%; The Bronx, 91.50%; Brooklyn, 90.46%; Queens, 91.93%; Richmond, 94.74%.

II

Between the decennial census of 1950 and the special census of 1957 the racial composition of almost 65% of the census tracts in the City of New York underwent a change. The change was more often an increase (45.84%) in the proportion of nonwhites than a decrease (18.54%), the ratio being more than two census tracts to one. (See Table II-1.)

Whether an increase or a decrease, these changes were most frequently of small proportion. Thus, of the census tracts that showed an increase in nonwhite population, more than 4 out of 10 showed an increase of less than 1%; the same is true of 7 out of 10 census tracts that showed a decrease in nonwhite population. As may be seen from Appendix Table 2, Brooklyn, partly because it is the largest borough, most resembled the pattern for the city as a whole, while Manhattan was first both in the number of tracts that showed an increase and in the number that showed a decrease in the proportion of nonwhite residents.

TABLE II-1

Change in Racial Proportions of Population of
Census Tracts in New York City, 1950-1957

Extent of Change	Proportion of Census Tracts
None	35.62%
Increase	45.84
Less than 1 %	19.55
1 - 9.9	17.40
10 - 24.9	5.03
25 - 49.9	2.72
50 - 74.9	0.98
75% or more	0.16
Decrease	18.54
Less than 1 %	13.67
1 - 9.9	4.10
10 - 24.9	0.57
25 - 49.9	0.20
50% or more	0.00
Total = 100%	(2,465)

Where did the change occur? The data describe roughly the extent to which racial segregation remained customary between 1950 and 1957—and the extent to which it did not. As Table II-2 indicates, the extent to which the population of nonwhites increased in a census tract between 1950 and 1957 depended markedly on the proportion of nonwhites already resident in the area.

TABLE II-2

Proportionate Increases in Nonwhite Population, 1950-1957,
by Proportion of Nonwhite Population in 1950

Proportionate Increase in Nonwhite Population of Census Tracts, 1950-1957	Proportion of Nonwhite Population of Census Tracts in New York City in 1950			
	None	Less than 1 %	1-9.9%	10% or more
None	70.58%	12.57%	1.90%	3.08%
Less than 1 %	19.84	48.20	14.76	12.82
1 - 9.9%	5.70	32.31	60.99	38.97
10% or more	3.88	6.92	22.35	45.13
Total census tracts in which proportion of nonwhites increased	(1,159)	(390)	(264)	(195)

Thus a comparison of the areas classified according to proportion of nonwhites in 1950 shows that the proportion of census tracts in which the nonwhite population increased 10% or more from 1950 to 1957 rose steadily from 3.88% (among the all-white tracts) to 45.13% (among the tracts with a nonwhite population of 10% or more).

Yet another piece of information on the source of the changes in racial distribution of population between 1950 and 1957 may be found in Table II-3, which compares proportionate increases and decreases by nonwhite concentrations in 1950. This table shows clearly the tendency for the increases in nonwhite population from 1950 to 1957 to occur more often in proportion to the nonwhites already in the area. The table shows also a clear tendency for the decreases between 1950 and 1957 to occur more often in the census tracts "less than 1%" nonwhite than in the census tracts "1-9.9%" nonwhite and more often in the latter category than in the tracts "10% or more" nonwhite. Also of interest is the fact that the proportion of census tracts that changed varies negatively with the racial composition of the tracts in 1950. Of those census tracts exclusively nonwhite in 1950, 71% did not change; of those less than 1% nonwhite, 7.4% did not change; of those 1-9.9% nonwhite, 1.3% did not change. Thereafter the figure rises to 2.3% for the 10%-or-more group.

TABLE II-3

Proportionate Change in Nonwhite Population
of New York City Census Tracts, 1950-1957, by
Proportion of Nonwhite Population in 1950

	Proportion of Nonwhite Population in 1950			
	None	Less than 1%	1-9.9%	10% or more
No Change	70.6%	7.4%	1.3%	2.3%
Increase	29.4	51.6	67.1	73.0
Decrease	0.0	41.0	31.6	24.7
Total Census Tracts = 100%	(1,159)	(661)	(386)	(259)

Table II-3 describes the average relationship between the initial racial composition of census tracts in 1950 and the rate and type of subsequent change. The breakdowns for the five boroughs are given in Appendix Table 3. Trends in Brooklyn and Richmond follow those of the city pattern fairly closely. Manhattan is particularly notable for the smaller-than-average proportion of census tracts in the "10% or more" group that decreased in proportion of nonwhites. The Bronx is not notably above average in this respect, but the downward trend in the relationship between the nonwhite concentration in 1950 and decreases thereafter is not consistent (uninterrupted) here. Queens is notable for the above-average increase in the "10% or more" nonwhite group.

A close-up look at some of the exceptions to the general pattern would be instructive but will not be attempted at this time. There is, for example, a relatively small number of tracts in each borough (except in Richmond, where the number is larger) that registered neither an increase nor a decrease in racial proportions. What makes these areas different from the others? Likewise, consider the areas that were all white in 1950 but that gained nonwhites by 1957: Were these all fringe areas? And if not, how do they differ from the others?

III

How stood matters in 1957? For the city as a whole, the distribution of census tracts with varying proportions of nonwhites is presented in Table III-1.

TABLE III-1

Proportion of Nonwhite Population
in New York City Census Tracts, 1957

Proportion of Nonwhites in Census Tracts	Proportion of Census Tracts
None	40.89%
Less than 1 %	23.65
1 - 9.9	19.07
10 - 24.9	5.76
25 - 49.9	4.06
50 - 74.9	2.47
75% or more	4.10
Total Tracts = 100%	(2,465)

As in 1950, the all-white census tract was modally typical of the city as a whole. But the proportion of such tracts decreased from 47.02% (Table I) to 40.89% (Table III-1). In this seven-year period the proportion of census tracts with fewer than 1% nonwhites also diminished—from 26.82% to 23.65%. The proportion of census tracts in all other categories increased.

Readers of these data may feel that the diminution in the proportion of all-white tracts represents a gain for integration; on the other hand, they may feel that the increase in the proportion of tracts 50% or more nonwhite does not represent a gain.

The interpretation is not a simple one, for while there has indeed occurred a wider distribution of nonwhites for the city as a whole (and dispersal is an accepted measure of integration) apparently the areas of nonwhite concentration also have expanded (and concentration is, of course, the usual indicator of residential segregation). Appendix Table 4 presents the proportion of Negro (nonwhite) population in census tracts for each borough as of 1957. Of all the boroughs, not Richmond but Queens had the largest proportion of all-white census tracts, as in 1950; Manhattan had the fewest, again as in 1950.

But Manhattan is also the only borough in which the proportion of all-white census tracts increased—from 7.69% to 10.80%, or, in absolute terms, from 22 to 31. (Compare Appendix Tables 1 and 4.) This is, of course, a net increase. Actually, a total of 16 Manhattan census tracts changed to all-white in the seven-year period. In Table III-2 comparable figures are given for all the boroughs in 1957 and, in parallel columns, the proportion of nonwhites in the census-tract population seven years earlier (1950).

TABLE III-2

Census Tracts in Which the Racial Distribution of the Population Changed to All White Between 1950 and 1957

Borough	Total Number of Tracts That Became All White Between 1950 and 1957	No. of Newly All-white Tracts (1957) Proportion of Nonwhites in 1950		
		Under 1%	1 - 9.9%	10% or More
Bronx	47	39	4	4
Brooklyn	66	50	12	4
Manhattan	16	10	5	1
Queens	50	38	8	4
Richmond	7	6	1	0
TOTAL	186	143	30	13

The major point of this table is that residential integration once attained is not necessarily attained forever. While 3 out of 4 (76.88%) of the census tracts that became all white in 1957 had been almost all white in 1950—and a strong question may be raised whether tracts under 1% in nonwhite populations should not be classed as segregated because of the way the statistics behave—there were 43 tracts in which the loss of nonwhite population appears to have been substantial. The tracts that became all white (186) are no more than a fourth of the number of all-white tracts that gained nonwhite residents: 7.5% compared with 29.4%. However, they serve to remind us that the changing neighborhood or changing community changes away from nonwhite occupancy as well as toward it. Thus the processes of urban change are not all in the direction of increasing dispersion of nonwhites.

As to the shapes of the racial distributions of the population in 1957 in each borough, no two boroughs were quite alike. Brooklyn, the largest borough (Appendix Table 4-b), most closely resembled the average distribution for New York City as a whole (Table III-1); that is, skewed to the left with smaller proportions of census tracts per category as the nonwhite population increases except for the last category. Again, as in 1950, Manhattan most nearly resembled a normal curve, while Richmond and, to a lesser extent, the Bronx were bi-modal, and Queens tended toward a "U" shape. (See Appendix Table 4.)

Summary:—The following points stand out as salient in this ecological description of racial trends in New York City between 1950 and 1957:

1. Between these two years the racial composition of 65% of the census tracts changed. This change was toward an increase in the proportion of nonwhites twice as often as toward a decrease.
2. The extent of the change in any given area depends strongly on the initial racial composition of the area.
3. The larger the proportion of nonwhites in an area in 1950, the greater the proportionate increase of nonwhites between 1950 and 1957. One hundred eighty-six census tracts (or 7.5% of the total) that had some nonwhites in 1950 had none in 1957.

APPENDIX

Table 1

Proportion of Nonwhite Population in Census
Tracts in Each Borough, in 1950

	Table 1-a Bronx	Table 1-b Brooklyn	Table 1-c Manhattan
Proportion of Nonwhite Population	Census Tracts	Census Tracts	Census Tracts
None	43.85%	51.42%	7.69%
Less than 1%	31.10	25.00	41.96
1 - 9.9	16.55	14.04	25.52
10 - 24.9	3.36	33.62	6.64
25 - 49.9	3.13	2.19	3.15
50 - 74.9	1.12	1.54	2.80
75% or more	0.89	2.19	12.24
Total Tracts = 100%	(447)	(912)	(286)

	Table 1-d Queens	Table 1-e Richmond
None	60.48%	39.47%
Less than 1%	21.53	19.30
1 - 9.9	9.92	35.97
10 - 24.9	2.69	3.51
25 - 49.9	2.13	1.75
50 - 74.9	1.98	0.00
75% or more	1.27	0.00
Total Tracts = 100%	(706)	(114)

Table 2

Change in Racial Proportions of Population
of Census Tracts by Borough, 1950-1957

Extent of Change in Nonwhite Proportion	Bronx	Brooklyn	Manhattan	Queens	Richmond
None	33.11 %	38.71 %	10.14 %	49.90 %	27.19 %
Increase	49.89	44.19	65.38	36.83	50.00
Less than 1 %	17.23	19.52	25.17	17.99	24.56
1 - 9.9	25.28	15.46	34.62	7.08	22.81
10 - 24.9	5.15	5.59	4.89	4.67	2.63
25 - 49.9	2.01	3.40	0.35	3.68	0.00
50 - 74.9	0.22	0.22	0.00	2.98	0.00
75% or more	0.00	0.00	0.35	0.43	0.00
Decrease	17.00	17.10	24.48	18.27	22.81
Less than 1 %	12.53	13.05	13.99	15.01	14.04
1 - 9.9	2.91	3.40	9.79	2.69	8.77
10 - 24.9	0.89	0.65	0.35	0.43	0.00
25 - 49.9	0.67	0.00	0.35	0.14	0.00
50 - 74.9	0.00	0.00	0.00	0.00	0.00
75% or more	0.00	0.00	0.00	0.00	0.00

Table 3

Proportionate Change in Nonwhite Borough Population,
1950-1957, by Proportion of Nonwhite Population in 1950

	Proportion of Nonwhite Population in 1950:			
	None	Less than 1 %	1 - 9.9 %	10 % or more
The Bronx				
No Change	71.9 %	3.6 %	1.3 %	2.7 %
Increase	28.1	60.4	83.8	68.4
Decrease	0.0	36.0	14.9	28.9
Total Tracts = 100 %	(196)	(139)	(74)	(38)
Brooklyn				
No Change	69.9	10.9	0.0	0.0
Increase	30.1	47.4	62.5	85.1
Decrease	0.0	41.7	37.5	14.9
Total Tracts = 100 %	(469)	(228)	(128)	(87)
Manhattan				
No Change	63.6	5.0	5.5	7.1
Increase	36.4	71.1	74.0	54.9
Decrease	0.0	23.3	20.5	38.0
Total Tracts = 100 %	(22)	(120)	(73)	(71)
Queens				
No Change	71.2	8.6	0.0	0.0
Increase	28.8	57.2	50.0	87.7
Decrease	0.0	34.2	50.0	12.3
Total Tracts = 100 %	(427)	(152)	(70)	(57)
Richmond				
No Change	68.9	0.0	0.0	0.0
Increase	31.1	50.0	68.3	66.7
Decrease	0.0	50.0	31.7	33.3
Total Tracts = 100 %	(45)	(22)	(41)	(6)

Table 4

Proportion of Nonwhite Population in Census
Tracts in Each Borough, in 1957

	Table 4-a Bronx	Table 4-b Brooklyn	Table 4-c Manhattan
Proportion of Nonwhite Population	Census Tracts	Census Tracts	Census Tracts
None	42.72%	43.20%	10.80%
Less than 1%	17.23	25.55	23.35
1 - 9.9	25.73	16.34	35.89
10 - 24.9	6.71	5.26	10.10
25 - 49.9	4.70	4.39	4.18
50 - 74.9	2.24	2.08	2.09
75% or more	0.67	3.18	13.59
Total Tracts = 100%	(447)	(912)	(286)

	Table 4-d Queens	Table 4-e Richmond
None	50.00%	35.96%
Less than 1%	26.63	14.04
1 - 9.9	8.50	38.60
10 - 24.9	3.40	9.65
25 - 49.9	3.54	1.75
50 - 74.9	3.68	0.00
75% or more	4.25	0.00
Total Tracts = 100%	(706)	(114)

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EXHIBIT 5

Research Report No. 7, "The Cost and Quality of Housing in White and Negro Areas of New York City, 1960." CCHR Report, New York City Commission on Human Rights

Research Report No. 7

The Cost and Quality of Housing in
White and Negro Areas of New York City, 1960

CCHR **REPORT**
NEW YORK CITY
COMMISSION ON
HUMAN RIGHTS



80 LAFAYETTE STREET
NEW YORK 13, NEW YORK

THE COST AND QUALITY OF HOUSING IN WHITE AND NEGRO AREAS OF NEW YORK CITY, 1960

By Harold Goldblatt

My topic tonight is patterns and trends of racial distribution in New York City. My talk is based on an analysis of data from the 1960 census. We do not as yet have accurate, systematic and recent information about the Puerto Rican community as we do about the Negro community. So I have chosen to restrict my remarks in this talk to the Negro population only.

Let me first give you some figures on the increase in the Negro population of this city. Today there are more than one million Negroes in New York. For the city as a whole Negroes constitute about 14% of the total population. In terms of growth of the Negro population in the city the figures stand like this: Since the turn of the century the total population of the city has increased about $2\frac{1}{4}$ times; the total Negro population, about 18 times. If we break the figures down by boroughs, the Negro population of Staten Island increased by about 9 times during the past sixty years; that of Manhattan by about 11 times; that of Brooklyn by about 20 times; that of Queens by about 56 times; and that of the Bronx by about 69 times. At present the population of Manhattan is 23% Negro; Brooklyn is 14% Negro; the Bronx 12%; Queens, 8%; and Staten Island 4%. Or, percentaging the other way, we can say that of the total Negro population about 36% live in Manhattan, 34% in Brooklyn, 15% in the Bronx, 13% in Queens, and 1% in Richmond.*

So much for the growth of the Negro population in New York. I want now to present you with information on race and housing in New York in

*These statistics are taken from Florence M. Cromien, *Negroes in the City of New York: Their Number and Proportion in Relation to the Total Population, 1790-1960*. City of New York Commission on Intergroup Relations, May 1961. (Since March 23, 1962, City Commission on Human Rights of New York)

1960. We can reach some important conclusions concerning race and housing in this city by taking the census tract as our unit of analysis. In other words, where the individual person is the counting unit in most discussions of race and housing, the census tract is the unit of analysis in this presentation. The census tract is an urban area ranging in population from fewer than 100 residents to several thousand. I want tonight to study the way in which three characteristics of these urban areas or neighborhoods are related. These three characteristics are the racial composition of the area, the quality of housing in the area, and the rentals charged the people living in the area.

There are approximately 2200 residential census tracts in this city. We can classify each tract or area arbitrarily into one of five groups according to the percentage of Negroes living in it. At one extreme we have the areas of white segregation, or about 400 areas that are all white. At the other extreme are about 190 areas that are at least half-Negro. Between these extremes are the fringe or so-called integrated areas — those that are fringe to the white ghettos and therefore have only small proportions of Negroes, let us say fewer than 2.5%, and those that are fringe to the Negro ghettos and are, let us say between 10% and 49% Negro. Finally, there is a fifth category of areas, those that are between 2.5% to 9.9% Negro.

So racial composition is the first characteristic of an urban area in New York City for which we have information that is systematic and recent and above all accurate. A second characteristic is the quality of the housing in the census tract. The census enumerators classified every single residential building according to its structural soundness and whether or not it had interior plumbing facilities in the right amount and condition. Therefore we can classify each area in the city on the basis of the quality of the housing in the area as to whether it is among the “*best*” housing areas in the city, or one of the “*fairly good*” housing areas, or one of the “*fairly poor*” housing areas. When I talk about the “*best*” housing areas or the “*fairly good*” housing areas or the “*fairly poor*” housing areas in the city, I am using these labels purely for linguistic convenience because I do not want to strain your attention any more than I have to. But by these rather vague labels I have in mind very precise statistical meanings. By “*best*” housing areas I mean those census tracts in which at least 95% of all the residential buildings in the census tract are structurally sound and the plumbing adequate by census definition. By the “*fairly good*” housing areas I mean those in which between 65% and 95% of the housing is good housing according to census definition. And by “*fairly poor*” housing areas I mean those in which less than 65% of the housing, ranging all the way down, is good housing according to census definition.

Now suppose we take all 2200 residential census tracts in the city and classify every single one of them according to racial composition and at the same time according to the quality of the housing. This we have done, and we found out that in 1960 in the City of New York as a whole and in each of the five boroughs analyzed separately the poorer the housing, the larger the proportion of Negroes living in the area. Take, for example, the 394 all-white census tracts. Fifty-seven percent of them are in the category of "best" housing areas as we are using that term tonight. On the other hand, take the 190 tracts that are at least half Negro. Only 21% of them are "best" housing areas. If we look at the "fairly poor" housing areas in the city, we will be driven to the same conclusion. For example, of the all-white areas only about 7% are "fairly poor" housing areas whereas for the largely Negro areas the figure rises to fully 44%. In other words, the farther you go from the Negro

TABLE I

**RACIAL COMPOSITION OF RESIDENTIAL CENSUS TRACTS
AND QUALITY OF HOUSING IN THE TRACT**

Percent Negro

Quality of Housing Area	Percent Negro				
	0.0	0.01-2.49	2.50-9.9	10.0-49.9	50.0 or more
"Best Housing" Areas	57.4%	58.3%	29.7%	23.6%	21.1%
"Fairly Good Housing" Areas	36.0	33.7	42.4	39.7	34.7
"Fairly Poor Housing" Areas	6.6	8.0	27.9	36.7	44.2
	(394)	(990)	(276)	(275)	(190)

areas the higher the percentage of good housing becomes. Which means that if you are Negro and you want housing as good as the whites have got, then on the average you have got to go where the whites are. The farther you go from your Negro relatives, friends, neighbors, and neighborhood institutions into white territory the better your chances for finding housing as good as the whites have got. Well, that of course is desegregation, and in this correlation between race and housing quality you have in very forceful, dramatic style the story of the social pressure upon the Negro to leave the Negro

neighborhoods if he wants to raise his standard of living, his style of life. Quite apart from the symbolic meaning of integration or desegregation as an assertion of social equality and of civil rights there is this economic significance.

What I have said about the correlation between race and housing quality for the city as a whole is true also for each one of the boroughs analyzed separately. It is true in Queens and it is true in Richmond. It is true in Brooklyn. It is strongly true in Manhattan. Of all the boroughs it is most true in the Bronx.

TABLE 1-A

PERCENT OF CENSUS TRACTS WHICH ARE "BEST HOUSING" AREAS
BY RACIAL COMPOSITION OF TRACT: ALL BOROUGHES

Borough	Percent Negro				
	0.0	0.01-2.49	2.50-9.9	10.0-49.9	50.0 or more
Bronx	68.2%	61.6%	48.5%	30.4%	8.3%
Brooklyn	57.6	59.5	24.1	14.0	15.6
Manhattan	*	17.2	5.4	15.1	6.7
Queens	56.5	70.8	51.2	47.5	37.7
Staten Island	42.9	38.7	19.2	23.1	**
Total City	57.4%	58.3%	29.7%	23.6%	21.1%

* Fewer than 10 census tracts

** No census tracts

Let me leave this relationship between race and housing quality for the time being and talk about the rentals that people pay for housing in white and in Negro areas. Again to make conversation easier, let us arbitrarily call an area where the average monthly rental is less than \$69 a relatively low-rental area. And let us call an area where the average rental is \$80 a month or more a relatively high rental area. And, finally, let us call the areas where the average rental is between \$70 and \$79 an intermediate rental area. On this basis of classification about 44% of the census tracts in the City of New York are what I am calling tonight relatively low rental areas, and about 35% are relatively high rental areas.

Now the general finding is that the larger the percentage of Negroes in an area, the lower the average rental in that area. The interpretation of this finding is surely not very far to seek. It is simply that, on the average,

Negroes are economically poorer than whites and that, again on the average, poorer people live in poorer housing and pay lower rentals than more affluent people do.

TABLE II
AVERAGE RENTAL PER CENSUS TRACT BY
RACIAL COMPOSITION OF THE TRACT
Percent Negro

Average Rental	0.0-2.49%	2.50-9.9%	10.0% or more
Through \$69.00	34.6%	66.0%	65.6%
\$70.00-\$79.00	23.5	18.1	14.8
\$80.00 or more	41.9	25.9	19.6
Total Tracts	(1,249)	(259)	(440)

The rule that average rentals are *lower* in Negro areas than in white areas is subject to certain qualifications, however. I would like to go into these qualifications in a little detail because our statistics enable us to locate the basis of two assertions that are heard frequently. First, that Negroes must pay more for their slum dwellings than whites pay for theirs; and second, that even those Negroes who can afford to pay for the more expensive housing are shut out from it.

Imagine a line drawing showing the percentage of city areas with relatively high rentals according to the proportion of Negroes in the area. That line drawing has the shape of a sliding pond. Let us take the Borough of the Bronx as a case in point. You climb the steps of the sliding pond until you get to the step marked 24%. At the 24% level on the scale of high-rental areas you are standing in all-white territory. When you get to the top of the sliding pond you are at the 31% level, and you are then standing in fringe-white territory. From there the sliding pond goes all the way down to zero, which means that there are no high rental areas at all. At that level, you are in the mostly Negro areas. The statistical curve for Brooklyn is very much like that for the Bronx. The fringe-white areas have the largest proportion of high rental areas while the Negro ghettos have none. In Manhattan almost 60% of the fringe-white areas are high rental areas while this is so of only 4% of the mostly Negro areas. Queens, however, is a clear exception to the rule. In the Borough of Queens there is no apparent relationship at all between the proportion of Negroes in an area and the proportion of high rental housing.

TABLE II-A
PERCENTAGE OF CENSUS TRACTS WHICH ARE
"RELATIVELY HIGH RENTAL" AREAS BY RACIAL
COMPOSITION OF TRACT: ALL BOROUGHES

Borough	Percent Negro				
	0.0	0.01-2.49	2.50-9.9	10.0-49.9	50.0 or more
Bronx	24.2%	31.4%	11.9%	9.4%	0.0%
Brooklyn	23.7	35.5	16.3	9.1	0.0
Manhattan	*	59.4	46.4	22.0	4.4
Queens	30.6	63.5	42.9	40.5	70.0
Richmond	63.6	60.7	21.7	*	*
Total City	28.3%	46.7%	25.9%	16.2%	24.2%

*Fewer than 10 census tracts

Now suppose we take a look at the lowest-rental areas, those with an average rental of \$49 a month or less. Everywhere throughout the city except in the Bronx all-white areas have a higher proportion of *low rental areas* than the mostly-Negro areas have. This means, apparently, that everywhere except in the Bronx poor Negroes pay more rent, on the average, than poor whites do. Another way to put these findings is this: The range of rentals is much narrower for the Negroes in this city than it is for the whites. Negroes less often live in the cheapest housing and also less often live in the relatively expensive housing. The significance of this finding lies in the comparative

TABLE II-B
PERCENTAGE OF CENSUS TRACTS WHICH ARE
"LOWEST RENTAL AREAS" BY RACIAL COM-
POSITION OF TRACT: ALL BOROUGHES

Borough	Percent Negro				
	0.0	0.01-2.49	2.50-9.9	10.0-49.9	50.0 or more
Bronx	0.0%	2.2%	1.7%	3.1%	16.7%
Brooklyn	11.9	10.1	23.2	16.1	3.1
Manhattan	*	12.5	32.1	24.0	6.7
Queens	3.7	1.1	0.0	2.7	0.0
Richmond	0.0	0.0	4.4	*	*
Total City	6.7%	6.1%	15.4%	12.0%	3.9%

*Fewer than 10 tracts

occupational distribution of Negroes and whites. According to our tabulations from the special census of 1957, more than twice as many Negroes as whites are employed at semi-skilled and unskilled occupations, in other words, at the low income occupations. The average personal income for whites in 1957 was about \$4500; for Negroes about \$2900. As a result of this combination of facts we have the racial pressure on the public housing projects. It explains why, if the occupancy of public housing is left to the ordinary workings of the housing rental market, the chances for obtaining a balanced ratio of low-income whites and low-income Negroes in housing projects are not very good. Our figures tell us of a squeeze situation where the relative proportion of low-income workers is greater among the Negroes than among the whites but where at the same time the proportion of lowest-rental areas is greater in the white ghettos than in the Negro ghettos.

So far we have considered the quality and the cost of housing available in white and in Negro areas. Now we have all heard and heard often that there is systematic rental discrimination because of race. It is said that there is rent gouging in the slums; it is said that at the level of good housing Negroes must pay premium rentals. But we have learned from our analysis of the most recent, the most accurate, and the most systematic data available to anyone that on the average Negroes do not in fact pay higher rentals than whites in the City of New York. Indeed, they pay lower rentals. If there is rental discrimination then, is it only occasional, only random, only sometime discrimination? Or, is rental discrimination really a considerable part of the social and economic organization of this city?

To answer that question we must separate out the influence of housing quality on rentals from the influence of race on rentals. We need an answer to the question: To what extent do Negroes pay extra because they are Negroes for housing *comparable* in quality to that enjoyed by whites? We can study the extent to which rentals are high according to the racial composition of the area and at the same time according to the quality of the housing in the area. Well, we have done that. Take the best housing areas as I have defined them in this talk: The percentage of high-rental areas is 37% in the all-white areas, but it is 64% in the Negro areas. Next take the fairly-good housing areas: The percentage of high-rental areas is 19% in the all-white areas, but it is 33% in the Negro areas. Finally, take the fairly-poor housing areas. Here the proportion of high-rental areas *decreases* from 6% in the white areas to 1% in the Negro areas. The conclusion, then, seems inescapable that in the best and in the fairly good housing areas, as we have defined them, the higher the proportion of Negroes in the area, the higher the rentals they must pay. On the other hand, in the fairly-poor housing areas the proportion of high-rental areas does not increase proportionately

TABLE III
 PERCENTAGE OF "RELATIVELY HIGH RENTAL" AREAS
 AMONG CENSUS TRACTS OF GIVEN RACIAL
 COMPOSITION AND HOUSING QUALITY

Quality of Housing Area	All White Areas (0.0% Negro)	Intermediate Areas (0.01-49.9% Negro)	Mostly Negro Areas (50% or more Negro)
"Best Housing" Areas (95.0-100% sound, with all plumbing)	37.1%	53.7%	63.9%
"Fairly Good Housing" Areas (65.0-94.9% sound, with all plumbing)	19.2%	30.1%	33.3%
"Fairly Poor Housing" Areas (0.64.9% sound, with all plumbing)	5.6%	11.6%	1.2%

with an increase in the proportion of Negroes in the area. I believe, though I have not been able to get the data ready in time, that this fact reflects the influence of the good quality public housing in areas where fairly poor housing otherwise prevails.

I will conclude with a comment on the Fair Housing Practices Law of the City of New York. During the three and a half years that the Commission on Intergroup Relations[†] has been responsible for the administration of this law, about 85% of our complainants have been Negro. These Negro complainants are from all walks of life but not, however, in proportion to the makeup of the Negro population. Rather, they have been disproportionately middle class in occupation and in education and in income. I think the findings I reported upon tonight on the influence of race upon the quality and cost of rental housing go some distance to explain the characteristics of our complainants; namely, that the answer does not lie in the administration of the law but rather in the social and economic organization of the City of New York. We have found that the quest for housing as good as the whites have got, at rentals no more than the whites pay for it, takes the middle-class Negro on a search for vacancies in all-white and in fringe-white areas. For that is where the chances for such housing are the best. What happens to Negro applicants at that point is told in the records of more than 800 sworn cases of housing discrimination on file at the office of the Commission on Intergroup Relations.[†]

[†] Since March 23, 1962, City Commission on Human Rights of New York

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Materials Relating to the Testimony of Allen Hessel

EXHIBIT 6

Press Release From Office of the Mayor of the City of New York. "Text of an Address by Mayor John V. Lindsay Before the Student Body Meeting of Yeshiva University, Thursday, October 30, 1969"

TEXT OF AN ADDRESS BY MAYOR JOHN V. LINDSAY BEFORE THE STUDENT BODY MEETING OF YESHIVA UNIVERSITY

I come here today to propose a new program aimed directly at one of the most critical problems facing New York: The preservation and enrichment of our neighborhoods.

New York is *not* one city—or five boroughs—or a set of political districts. It is dozens of communities, distinct and unique. And whatever else we seek to do in the next four years, the preservation of this diversity—the strengthening of our neighborhoods—is our single most important task.

You at Yeshiva have seen this problem firsthand. A neighborhood often changes in character and population. New groups, seeking the same opportunity here as did your parents and mine, move to the city. Residents here may react with uncertainty. And a small unscrupulous group sometimes preys on that uncertainty—through speculation and blockbusting.

What may then happen is a vicious cycle: Fear of deterioration leads to deterioration. People move out. A neighborhood's stable business and residential base flees. And another neighborhood falls victim to the vicious cycle of decay.

Yeshiva is part of a great neighborhood now feeling this pressure. And you know how great is the danger. For when a neighborhood dies, everyone suffers. Those who stay behind feel betrayed, lost. Newly arrived citizens find not opportunity, but only another community of hopelessness. Traditions, too, die. A religious Jew cannot drive on the Sabbath to his synagogue—so he has moved, a part of his past, a part of his life, dies. The elderly are suddenly alone. And the only victor is despair.

This pattern must be stopped—for the sake of every New Yorker. We in this city must provide services and concern equal to the pressures of a changing neighborhood. And we believe this can be done.

More than a year ago, a pioneering study of the Grand Concourse showed how a neighborhood could be held together. We acted on that study. We began a Concourse Action program—to provide visible, clear government concern and programs to strengthen the neighborhood.

We tried to bring civic leaders and the City together to keep the Concourse great. Now, although serious problems remain, there is real hope—visible signs of progress. Tangible evidence—through well-lit streets, cleaner neighborhood, more police protection—that New York cares about the Concourse.

And we've seen that the people of a neighborhood—of every race and nationality—will work together if they have hope. The time has now come to turn that hope into possibility in several important neighborhoods.

I am thus proposing today the start of a Neighborhood Stabilization Program—designed to bring this hope into critical neighborhoods. This Program will explicitly recognize the special problems of these neighborhoods: racial, social, economic. It will not attempt to encourage segregation, to propose quotas, to prevent change. It will instead try to keep a neighborhood viable, prosperous and safe through a concentrated, coordinated effort between city government and the neighborhoods.

Initially, this Neighborhood Stabilization program will be started in five areas: The Grand Concourse, East Flatbush, Laurelton, Crown Heights, and here in Washington Heights.

It will be aimed primarily at reducing threats to a neighborhood's stability. And the most important premise is that a neighborhood itself—its people, its leaders—should reflect the way a neighborhood grows and changes.

There are five key elements in this program:

First.—The City, meeting with the members of a neighborhood, will try to bring the visible signs of concern and change—the small, but vital program that show active hope. This means better street lighting; it means repairs on the streets and avenues of a neighborhood. It means intensive efforts to clean the parks and expand their use. It means tailoring police protection to specific neighborhood

concerns. It means expanding school programs, and locating school sites, to protect community cohesion. And it means the swift, effective response of the City to the things a neighborhood needs. We believe this can be done—and we are going to try to do it.

Second.—The City's middle-income housing program will be used to promote housing for older and newer residents alike—particularly among the elderly of a neighborhood. Because we know that good housing—in adequate supply—is essential to anchoring the local population, and avoiding flight.

Third.—We will make an explicit decision to bring the disparate populations of a neighborhood together. I've talked often about a government of reconciliation in New York—but that means reconciliation not just among neighborhoods, but within neighborhoods. We believe that black and white and Puerto Rican can sit down and work together for their common goals. And in any event, that effort must be made in our City's neighborhoods—because it is right.

Fourth.—We intend to take a bold step toward real neighborhood autonomy with a specific step: The use of lump sum community budgets. This means that a neighborhood will know how much money it has for community improvement—and can make its own choices about where that money will go, instead of being dependent on the city's bureaucracy. This will be difficult. But the people of this city have a right to chart their own destiny—and the lump sum budget, the choice of priorities, is an important tool for community involvement. And we intend to try that effort out—beginning next July 1, when the next fiscal year begins.

Fifth.—We propose a Neighborhood Study Commission, to find the fundamental tools of neighborhood stabilization—in the hope of providing techniques to stop problems before they begin. We see now in New York neighborhoods that succumbed years, decades ago and neighborhoods that are now fighting to remain stable. We seek now to anticipate these developments—to match the efforts of the City with the pressures of change—to provide stability and growth in our communities.

This program is new. But the concept is not. More than three years ago, Robert Kennedy pioneered this effort in Bedford-Stuyvesant; in a program which took that community as a single, organic whole—and tried to bring community and City people together. We think Robert Kennedy's vision makes sense in other neighborhoods, too—now feeling pressure and tension. And we hope to make it a part of city policy to protect and preserve these parts of our city.

That vision cannot succeed without the help of the people of New York. Because their confidence is the strongest ally we have. And we need the help of civic leaders—including your own. Yeshiva has already served the City through its participation in the Urban Corps. This time, I ask your help right here—in Washington Heights—in participating in this effort at Neighborhood Stabilization. Because your talents and your energy can make an important difference.

No one can say now that this program will solve our dilemmas. Problems and tensions will certainly remain. But we do know that surrender is no answer. We do know that without this kind of effort, we cannot win the fight for our neighborhoods. And we do know that a city actively, visibly working with its people is the most important asset we can offer.

This administration—and this Mayor—is willing to supply that help. We want leadership in our communities, and leadership as well from the City. Because we seek reconciliation through real effort—we seek reconciliation in every neighborhood, among every New Yorker. And with your help, we think this fight for a better city can be won.

EXHIBIT 7

"An Evaluation of the Laurelton Neighborhood Action Program" by Boyer, Brawer, Deetjen, Phillips, April 1972

AN EVALUATION OF THE LAURELTON NEIGHBORHOOD ACTION PROGRAM

(Submitted to: Lewis M. Feldstein, Director, Mayor's Office of Neighborhood Government and Rabbi Sam Schrage, Director, Mayor's Neighborhood Action Program; By George Boyer, Allen Brawer, Larry Deetjen, Tom Phillips; on April 13, 1972)

PROFILE OF LAURELTON PRIOR TO THE LAURELTON NEIGHBORHOOD ACTION PROGRAM

Laurelton, a community of over 31,000 residents, is situated in the southeast corner of Queens. Ownership of the 7,000 single attached and unattached homes contribute to the suburban quality of this middle class area, where in 1970 the average selling price for a house was \$28,140. In the same year, thirty percent of the homes in Laurelton were owned by Black families, a substantial change from 1960 when 99% of the residents were white.

It was in the early 1960's that Blacks began moving into predominantly Jewish Laurelton. By 1968 one primary school located in Laurelton but adjacent to the overwhelming Black community of St. Albans, had a 71 percent Black student ratio. The other two primary schools, farther west and closer to the Nassau county line had Black student ratios of 33 and 41 percent. Busing of minority students into Laurelton contributed to the high number of Black students in the neighborhood schools. Private Jewish and Catholic schools also operated in Laurelton.

The initial response of the residents of this community which had traditionally housed middle level civil servants was to resist blockbusting activities, by organizing the Laurelton Fair Housing Council. It was soon realized that a defensive effort alone would not be sufficient to maintain the integrated quality of the neighborhood. Groups were formed, therefore, to actively recruit white residents. This effort was interdenominational but evolved into an organization committed to the placement of Jewish families.

By early 1971 the change in the racial balance as well as competition from nearby shopping centers had resulted in a loss of a number of merchants along the main commercial avenue in Laurelton. The transitional nature of the community had also affected the age level of the residents. The out migration of younger status conscious families had left a large number of older, longtime Laurelton residents.

THE CONCEPT: NEIGHBORHOOD ACTION PROGRAM

Mayor John Lindsay, in a speech at Yeshiva University less than a week before the 1969 election, proposed the creation of a Neighborhood Stabilization Program in five neighborhoods, including Laurelton. A few of the key elements of this program which was "aimed primarily at reducing threats to a neighborhood's stability:"

1. "The city meeting with the members of a neighborhood [would] try to bring visible signs of concern and change . . ."

2. There would be an "explicit decision to bring the disparate population of a neighborhood together . . ."

3. ". . . The use of lump sum community budgets. This means that a neighborhood [would] know how much money it has for community improvement and [could] make its own choice about where that money [would] go . . ."

The name of the program was later changed to the Neighborhood Action Program and was placed in the Office of Neighborhood Government which was headed by Louis Feldstein. Rabbi Samuel Schrage was appointed to be the director of the Neighborhood Action Program for the six neighborhoods (another neighborhood was added); three million dollars of capital budget and \$550,500 of expense budget funds were authorized to initiate the program.

Allen Hessel was selected as the director and Russell Washington as the deputy director for the Laurelton Neighborhood Action Program, which was also to include a part of Cambria Heights. (See Appendix C for maps of the area.) Both individuals were Laurelton residents. The initial allocation for Laurelton was \$250,000 in capital funds. Also on the staff were Kerstene Morse, community worker, and Lena Ruden, secretary. The opening day for the Laurelton NAP Office was February 16, 1971.

STABILIZATION

The Stabilization Concept

The stated primary objective of the Laurelton Neighborhood Action Program is the stabilization of a neighborhood presently in the process of transition.

An essential preface to any serious evaluation effort of the program must confront two critical questions:

- (1) What is the "transition" process?
- (2) What conditions define "stabilization"?

A transitional neighborhood, such as Laurelton, is one that is in the process of "turning" from an area characterized by a predominantly white, middle income resident population, to one characterized by a black, lower-level income population

Based on interviews with Neighborhood Action Program officials, the following phases of the transitional process appear most relevant to the past and present experience in Laurelton:

(1) A close proximity to the neighborhood of a heavily concentrated, predominantly black residential area, i.e., the South Jamaica section of Queens;

(2) An initial "invasion" of the neighborhood (circa 1960) by a limited number of black families, generally of a higher income level than the departed white families that they replace;

(3) A subsequent incidence of white out-migration due to a perception of imminent crime, loss of property value, overcrowded and unsafe schools, etc;

(4) An increasing exploitation of this racially sensitive situation by local real estate and mortgage lending agencies—with an interest toward maximum turnover within a minimal time period—through selective selling and lending practices designed to both encourage black in-migration and white out-migration, and to discourage white in-migration to the neighborhood;

(5) A gradual reduction in the level of public service delivery to the neighborhood—Laurelton has had a relatively high proportion of resident municipal employees, and it would not seem to take long for word that the neighborhood is "changing" to circulate throughout the city service agencies;

(6) A gradual decline in community identity by whites, followed by a commitment to an inevitable departure date;

(7) A gradual reduction in income level among an increasing number of in-migrating black families;

(8) An increase in foreclosures of homes owned by moderate-low income level black families unable to meet mortgage commitments;

(9) A subsequent boarding-up and deterioration of foreclosed properties, leading to the development of blighted areas; and, finally,

(10) A resultant, deteriorated black ghetto.

According to the Laurelton Neighborhood Action Program Director, Laurelton is presently entering Phase 7 of this process.

What conditions would define the presence of neighborhood "stabilization" in Laurelton? According to the directors of both the Mayor's and the Laurelton Neighborhood Action Programs, a desired state of stabilization would exist under two key conditions:

(1) The maintenance of a relatively static, middle income level resident population; and

(2) The maintenance of a resident population with a "balanced" racial proportion, i.e., characterized as neither "white" nor "black," but genuinely "integrated."

While both key conditions of stabilization of the Laurelton Neighborhood seem somewhat loosely drawn, it has not proven possible to elicit a more rigidly structured definition from either director.

Despite this obvious constraint, it did appear useful, however, to attempt the development of a set of rough "indicators," i.e., the identification of key variables that would appear to offer the most accurate possible measure of the Laurelton neighborhood's movement toward or away from a generally defined objective of stabilization.

Development of stabilization indicators

Based on extensive interviews with local program officials, community leaders and neighborhood residents, as well as on additional available data, the following indicators were identified and developed as most critical to the stabilization process:

(1) Resident homeownership stability;

(2) Resident income level stability;

(3) Resident racial distribution;

(4) Public school racial distribution;

(5) Neighborhood public safety; and

(6) Neighborhood public service delivery.

Recognizing the critical significance to stabilization of the popular perception of neighborhood conditions, as well as the necessity of comparative empirical measurement, we attempted to develop both objective and subjective measures for each indicator, wherever possible.

Application of stabilization indicators

(1) *Resident homeownership stability.*—Objective measure: annual rate of owner housing turnover; Laurelton; selected years, 1960–1972.¹

¹ See app. A4.

Year	Annual turnover rate (percent)	Change (percent)
1960.....	3.5	---
1965.....	6.3	80
1969.....	9.5	51
1970.....	7.7	-19
1971.....	11.4	48
1972 (for month of January only).....	11.8	4

Following a 19% decrease in the turnover rate during 1970—which may have resulted from an overall tightened mortgage money market—the rate has continued to increase. The current rate of 11.8%, for January, 1972, compares somewhat unfavorably to both: 1) a normal current citywide middle-income housing turnover rate of 7%;² and 2) a “desirable” turnover range for Laurelton of 7–10 %.³

Subjective measure: distribution of Laurelton resident survey responses regarding intention to remain in Laurelton.⁴

Response	Number of respondents	Percent of respondents
“Yes” (remain).....	170	86
“No” (plan to leave).....	28	14
Total.....	198	100

(2) *Resident income level stability.*—Objective measure: percent of population receiving welfare; Laurelton, Queens, New York City; 1965, 1971.⁵

PERCENTAGE OF POPULATION RECEIVING WELFARE

Year	Number	Laurelton		Queens		New York City	
		Percent	Change (percent)	Percent	Change (percent)	Percent	Change (percent)
1965 (April).....	141	0.42	---	1.46	---	6.1	---
1971 (July).....	1,082	3.22	667	3.41	134	15.1	148

As these figures indicate, during the six-year period, while the percent of population receiving welfare in Queens and the entire city more than doubled, the percentage in Laurelton increased almost eightfold. While this constitutes only a surrogate measure of income stability (as well as the only comparative data available) it would appear to support somewhat the popular perception that the resident income distribution in Laurelton is steadily skewing downward.

(3) *Resident racial distribution.*—Objective measure: distribution of owner/occupied housing units by race; Laurelton; 1960, 1970, 1972.⁶

PERCENTAGE OF TOTAL OWNER/OCCUPIED UNITS

Year	White	Black
1960.....	99	1
1970.....	69	30
1972.....	53	47

² Interview: Rabbi Sam Schrage, Director, Mayor's Neighborhood Action Program, Mar. 28, 1972.

³ Interview: Allen W. Hessel, Director, Laurelton Neighborhood Action Program, Apr. 4, 1972.

⁴ See app. A3.

⁵ Interview: Dr. Abraham C. Burstein, Director of Economic Research, New York City Human Rights Administration, Apr. 12, 1972.

⁶ See apps. A1, A2.

Given: the trend that these figures appear to indicate; the relatively high turnover in home ownership; and the relatively low proportion of in-migrating white families, it would seem reasonable to predict that Laurelton will "turn black" (i.e., exceed 50%) at some point within the next two years.

(4) *Public school racial distribution*.—Objective measure: distribution of pupils by race; Laurelton Area Public Schools; 1967, 1970.⁷

PERCENTAGE OF TOTAL PUPIL ENROLLMENT

School	White		Black		Other	
	1967	1970	1967	1970	1967	1970
Public School 132.....	26	5	71	91	3	4
Public School 156.....	57	40	33	54	10	6
Public School 176.....	55	18	41	75	4	7
Independent School 59.....	38	21	52	75	10	4
Andrew Jackson High School.....	48	29	47	64	5	7

As indicated by these figures, two of the five schools had turned black at some point prior to the three-year period, while the remaining 3 turned black during the period.

(5) *Neighborhood public safety*.—Objective measure A: incidence of selected crimes; 105th Police Precinct (includes Laurelton area); 1969–1971.⁸

INCIDENCE OF SELECTED CRIMES

Year	Robbery	Rape	Assault	Burglary
1969.....	738	23	338	3,390
1970.....	988	44	459	3,151
1971.....	1,253	48	481	3,934

Objective measure B: rate of selected crime incidence per 1000 persons; 105th Police Precinct and three adjacent Queens Police Precincts; 1971.⁹

SELECTED CRIME RATE PER 1,000 PERSONS

Precinct	Robbery	Criminal homicide	Burglary	Auto theft
105th.....	57	0.6	178	117
103d.....	109	2.5	261	218
107th.....	43	.1	116	185
111th.....	19	.2	95	122

Subjective measure A: distribution of Laurelton resident opinion toward level of police protection during 1971.¹⁰

Opinion	Number of respondents	Percent of respondents
Improved.....	13	8
Gotten worse.....	43	25
Stayed the same.....	86	51
Don't know.....	28	16

Subjective measure B: Physical observation, April, 1972, of large proportion of residents owning chained or fenced German Shepherd police dogs.

(6) *Neighborhood public service delivery*.—Subjective measure: distribution of Laurelton resident opinions toward levels of selected public service delivery during 1971.¹¹

⁷ *New York City Master Plan, Queens, 1969*; also New York City Board of Education files, New York City Planning Commission.

⁸ New York City Police Department Crime Statistics.

⁹ *New York Times* Article by David Burnham, Feb. 14, 1972, p. 1.

¹⁰ See app. A3.

¹¹ See app. A3.

PERCENTAGE OF RESPONDENTS

	Improved	Gotten worse	Stayed the same	Don't know
Sanitation.....	13	22	60	5
Road repair.....	5	75	15	5
Public schools.....	10	28	29	33
Public transportation.....	15	20	33	32

Measurement of stabilization

What do the indicators developed and applied above suggest about the stabilization level of the Laurelton neighborhood? It does not appear possible to answer this question with any degree of empirical certainty, given the following constraints:

(1) An inherent vagueness in the objective of stabilization as defined and aimed at by the Neighborhood Action Program officials: What constitutes an optimal distribution range of family income for Laurelton? What constitutes an optimal distribution range of race for Laurelton?

(2) A difficulty in weighing the critical relationship between subjective perception and objective measure: Will white families move out at a faster rate when Laurelton becomes 51% black, or 60%, or 75%? When 5% of the population is receiving welfare, 10%?

(3) A difficulty in measuring the marginal differential impact of two or more given indicators. How does a pothole on this block compare with a reported rape on the next, or with the presence of a black family next door?

(4) A difficulty in isolating possible external variables of stabilization, i.e., a family's movement from the neighborhood might be motivated solely by a normal tendency toward a higher socio-economic status, rather than being driven by some perception of a deteriorating Laurelton.

It does seem possible, however, on the basis of these indicators, to reach some reasonable judgments concerning current stabilization trends in Laurelton:

(1) The increase in housing turnover appears to continue unabated. This is clearly a de-stabilizing trend, supported by the survey indication that one out of every seven Laurelton resident families did not intend to remain.

(2) The continuing increase in welfare recipients will serve to skew median neighborhood income downward—to what degree it is not presently possible to say—and this clearly reflects a de-stabilizing trend.

(3) Laurelton is likely to have a black resident majority within two years if present turnover trends continue. Given both the stabilization objective of a "balanced" neighborhood, as well as our subjective sense of the present neighborhood, this would appear to indicate a de-stabilizing trend.

(4) Each of the six public schools in the area have a black pupil majority—once more, our subjective sense of the neighborhood clearly indicates this to exert a de-stabilizing effect.

(5) Perhaps of all the indicators, the state of public safety is the one most suitable to subjective, rather than statistical measure. Contradicting the relatively neutral attitude toward the level of police protection reflected in the survey, our recurring sense of several sections of Laurelton was that people appeared apprehensive, and the high incidence of watch dogs served to strengthen this. If valid, this would clearly be an indication of de-stabilization.

(6) Aside from an almost universal dissatisfaction with the present state of road repair, most residents, as reflected in the survey, seem to find the level of neighborhood public service acceptable. To the extent that this attitude affects stabilization, it would appear to be the most favorable of the indicators.

Stabilization and the Neighborhood Action Program

Given our overall conclusion, however subjective, that the Laurelton neighborhood is moving away from, rather than toward, stabilization, is it possible to measure any effect that the Neighborhood Action Program may have exerted to alter this trend during its first year of operation? We have found it impossible to measure the Program's effectiveness at this level on any basis more substantial than intuition. We have, however, found it far more feasible to evaluate Program effectiveness at a somewhat lower level of objective, and the following section will address this task.

EVALUATION OF N.A.P. EFFORT

The effort level of evaluation seeks to explicitly pinpoint and assess the quantity and energy of the Laurelton Neighborhood Action Program. The N.A.P. staff, consisting of a director, deputy director, community worker, and secretary,

has channeled its effort into three basic areas; capital improvements, community organization, and improvement of delivery of services. An analysis of this N.A.P. input involves the application of the following indicators:

1. Number, type, and cost of capital improvements;
2. Number and membership of block, federation, and commercial associations; and
3. N.A.P. staff project actions, miscellaneous activities engaged in to affect delivery of services.

CAPITAL IMPROVEMENTS

A bold innovative element of the Neighborhood Action Program is a lump-sum community budget for capital improvements. Specifically, \$500,000 designated for the Laurelton Neighborhood for two years has been allocated in the following manner:

Project:

	<i>cost</i>
1. Street lighting (entire N.A.P. area)-----	\$150, 000
2. Luca Lux lighting (Merrick and Linden Blvds.)-----	43, 000
3. Sanitation equipment (district No. 66, 67 exclusively)-----	48, 000
4. 54 local streets to be strip-paved-----	205, 000
Total-----	446, 500

As of April 8, 1972, only the purchase of sanitation equipment has been completed. Both lighting projects and the strip-paving of local streets are scheduled for construction within the next 4-6 weeks. N.A.P. Laurelton has also been in contact with Police precinct 105 in an attempt to purchase unmarked police cars for their neighborhood. The cost of this project if initiated is \$10,000.00.

COMMUNITY ORGANIZATION

An important concept of the Neighborhood Action Program is that the neighborhood itself—its people, leaders, should reflect the way a neighborhood grows and changes. The Laurelton N.A.P. staff acted on this premise from the inception of the program and directed effort in the task of creating neighborhood self-action—encouraging the people to deal with the priorities or the neighborhood. General Community Meetings were held at the various public schools in the neighborhood with attendance ranging from 200-300. Numerous projects and areas of concern were discussed, responsibilities delegated, and committees formulated. These early general community gatherings were the stepping stone for the creation of associations. The three main associations presently existing in Laurelton are the block associations, commercial associations, and an umbrella organization—the federation of block associations. Mr. Alan Hessel, Area Director, has stated that 50-60 block associations are functioning with 20 more in the pipeline. N.A.P., in an effort to stop the panic selling of homes in the area as a direct result of Blockbusting, initiated the plan to organize these block associations as a means of focusing attention to the problem by improving communications between ethnic groups on a block basis. These associations are headed by a block captain and slowly are beginning to confront delivery of services and other matters on their own. One such association is the Mentone Avenue Block Association. Mr. Melvin L. Artis, President of this association, discussed with us the various efforts of his young organization. They have contacted the Parks Department concerning rehabilitation of existing facilities, clean-up of a parkway, and beautification of the Laurelton area. They also have confronted city agencies in an attempt to prevent a zoning change permitting the entrance of a nursing home in the area. Another example of the vital community services some of these associations are actively performing was observed by this laboratory team on Saturday April 8, 1972. A group of 50-75 citizens from the Laurelton community were cleaning up the mall area along 141st avenue and nearby littered vacant lots.

N.A.P. has also helped to organize two merchant organizations along Merrick and Linden Boulevard. Robert Cuevas, President of Laurelton Chamber of Commerce praised N.A.P. saying, "N.A.P. has been a great help in promoting the Merrick Boulevard Association which is now 65 strong in membership."

The third type of organization that N.A.P. has been instrumental in development is the Federation of Laurelton Block Associations. This umbrella organization has formed an executive committee and a school committee in an attempt to improve the quality and delivery of education to the Laurelton neighborhood.

N.A.P. PROJECT ACTIONS, MISCELLANEOUS ACTIVITIES, DELIVERY OF SERVICES

N.A.P. has exerted a considerable amount of effort in attempting to improve communication between city agencies and the Laurelton community. The establishment of a firm base of communication between the community and the maze of city agencies is essential to improving the delivery of services. In total, N.A.P. Laurelton has maintained regular communication with at least twenty departments in hopes of gaining their cooperation and top priority in terms of action. Some of the functional areas covered by N.A.P. are as follows:

Housing.—Blockbusting activities; non-solicitation declaration; owner of vacant lot-fix, clean.

Health.—Sickle cell anemia project; medicaid renewal; Merrick Blvd-local medical facility.

Publicity.—Long Island Press Daily News; N.Y. Times, "I'm Staying."

Commerce.—Baskin-Robbins franchise; Operation Mainstreet; OTB Parlor; Economic Development—N.Y. Port Authority; street festival.

Police.—Operation neighborhood Sergeant; church vandalism; Carbo Oil robberies; shoe repair holdup; unmarked police cars.

Environmental Control.—Cleanup-flood; trash recycling; sewer maintenance; sanitation vehicle; spring cleanup.

Youth-Social Services.—Community center; Y.S.A. activities; Little League baseball; mobile units use; Hannukah, Christmas party; operation Santa Claus.

Parks.—Park facility maintenance; parkway grass cutting; tree pruning.

Traffic.—Traffic signs installation.

Highways.—Springfield Blvd. paving; pot holes; strip paving; curb dog signs; narrow malls, Francis Lewis Blvd.

Transportation.—Express bus service; improvement of schedule; time promptness.

Miscellaneous.—Lighting; Boy Scouts; educational lectures.

The preceding list of functional areas touched by N.A.P. staff and the corresponding activities in each functional area is not an exhaustive one. N.A.P. staff throughout the year handled several hundred complaints and provided office space and time to such groups as the Laurelton Athletic Association. Highlighting this area of N.A.P. effort was the program's contribution to the anti-blockbusting campaign. N.A.P. during its first year of service coordinated such activities and was instrumental in encouraging the Secretary of State to declare the Laurelton neighborhood a Non-Solicitation Area. The Human Rights Commission also held hearings in the Laurelton community on blockbusting, and Senator Hart's Committee on Antitrust and Monopoly has requested information on the experiences of such a transitional neighborhood as Laurelton.

N.A.P. also ingeniously contacted and negotiated with the Highway Department to complete the construction of the Springfield Boulevard project. Several meetings were held in the community and the groundbreaking ceremony took place in October, 1972. Cost of the project is \$1.8 million. No allocation of N.A.P. funds was required.

In April 1971, in coordination with the Sanitation Department, a major cleanup project was conducted. All local streets were swept, washed and bulk refuse picked up and disposed of. Some empty lots were also cleaned which is not normally a city responsibility.

In conclusion, our analysis of N.A.P. Laurelton indicates a commendable amount of input is being exerted. However, at this time it is important to point out that the high level of effort being exerted by N.A.P. appears to be locational in direction. Most activities and a lopsided amount of association formation relative to population and house turnover have occurred south of 129th avenue. The area north of 129th and south of Linden Boulevard is part of N.A.P. Laurelton territory

EVALUATION OF N.A.P. EFFECTIVENESS

The effectiveness level of evaluation measures the results of N.A.P. activities—the output of N.A.P. The following indicators were chosen in terms of meeting subobjectives:

1. Tangible Capital Improvements
2. Maximum Community Input
3. Viability of Associations
4. Office and Program Awareness
5. Improved Delivery of Services
6. Discouragement of Blockbusting

TANGIBLE CAPITAL IMPROVEMENTS

The purchase of new sanitation equipment for exclusive use in the Laurelton community is the only capital improvement to date. The lighting and strip-paving are only weeks away from the start of construction. The Springfield Boulevard project was started in October and although no N.A.P. funds were allocated for it, N.A.P. deserves credit for getting the project into construction stage and it can be considered a tangible capital improvement project. Although the major proportion of projects and funds has yet to be implemented, a survey conducted by our laboratory team indicated the majority of residents neither knew of the planned improvements in the pipeline, nor were they aware of those improvements that have occurred already, (see appendix A-3).

In an interview with Mr. Paul Brown, Department of Highways Engineer for the Borough of Queens, the merits of strip-paving were discussed. The economic life of strip-paving is predicated on the degree of water problems in the area, the original roadbed base, and the volume of traffic. The state of these three variables in Laurelton are as follows:

- (1) Water problems—Laurelton has very bad drainage problems;
- (2) Road base—strip-paving consists of laying asphalt on the existing base and in Laurelton's case the foundation is poor—lots of clay that holds water—it would be better trip out and rebuild a base; and
- (3) Traffic volume—varies by location and streets, there are streets in Laurelton that bear a large volume of traffic.

Based on the above variables, Mr. Brown estimated the range of the planned strip-paving project life from 6 months to 3 years. He directed our laboratory group to two streets in the neighborhood just south of Laurelton. Both were in equally horrible shape—about the same condition as the streets in Laurelton presently are in. The age of the strip-paving on these two streets was 3 years and 18 months. Mr. Brown acknowledged the fact that strip-paving is a band-aid technique but also stated the law of supply and demand and scarce resources. He stressed the fact that he was in favor of the N.A.P. scheduled project and was giving it top priority. He has 15–20 miles of strip-paving planned for Southeastern Queens and the N.A.P. project is 4.5 miles. He is assigning two crews to the N.A.P. project specifically leaving only one crew for the rest of Southeastern Queens. He concluded his discussion of the project by saying, "N.A.P. is good, it organizes the public and gets some attention, consequently we give it some priority."

MAXIMUM COMMUNITY INPUT

This indicator is concerned with the earlier mentioned premise that the neighborhood itself should reflect the way it grows and changes—that as much community input as possible is desirable. The first indication of community input was in the selection process of the area director. A committee of community leaders interviewed several well qualified individuals and were able to thwart an attempt to bring in a director from outside the community for political reasons. The power struggle ended with the selection of Mr. Alan Hessel, a resident of the Laurelton community and the candidate most favored by the leaders of the community. Another area of community input is participation in the budget process. In an interview with Mrs. Alan Cohen of the Laurelton Jewish Center the extent of participation in the budget process was discussed. Mrs. Cohen had attended all the general community meetings and was aware of the essential N.A.P. elements. Her husband was one of the candidates considered for the position of area director. Attendance at the general meetings varied in a range of 200–300. The meetings were held at the various public schools in the neighborhood, each in a different section of Laurelton. Once the auditorium was filled to capacity. The capital projects were individually discussed and a $\frac{2}{3}$ majority vote by those present was required to approve a project. Mrs. Cohen added that at no time was there any major disagreement with the selection of particular capital improvement projects. Voting for the various projects was unanimous in most cases. Participation after this point declines. Mrs. Cohen had no idea of the status of the improvements she had voted for, nor did she know of any improvements which had already occurred. As earlier pointed out, our survey indicated that the majority of residents neither knew of planned improvements nor were aware of those which had already occurred.

VIABILITY OF ASSOCIATIONS

The number of block associations is growing and a good racial mix and interaction is quite evident. An overall strength does not seem to be apparent at this time and participation varies from block to block. The Federation has been formed with the help of N.A.P., and it has recently established a school committee to improve the delivery of education. This is to be commended for N.A.P. itself cannot significantly affect this area. The Federation may be the only channel to improving this critical area in Laurelton. The Merrick Boulevard Merchant Association is now 65 strong in membership and the problems of shopping center competition and deficient parking facilities are being wrestled with. In summary, associations are in the early stage of growth and it is not possible at this time to tell whether or not these organizations are self-sustaining.

OFFICE AND PROGRAM AWARENESS

In terms of mere visibility, our survey indicates that N.A.P. is widely known, but this is mainly a recognition of the name and few people associated the program with its activities. In aggregate terms, 109 people had heard of N.A.P. or 55% of our survey sample. A definite locational awareness of the program also exists. Families living between 129th avenue, Linden Boulevard, Springfield Boulevard, and Laurelton Parkway are not as familiar with the name 'N.A.P.' as the people in the census tracts south of 129th avenue.

IMPROVED DELIVERY OF SERVICES

Our survey results indicate that the public perception of the delivery of services is that they have remained the same during the past year with the exception of roads which have gotten worse. (See appendix A-3.) The evaluation of this indicator was taken one step further by contacting the relevant agencies and inquiring about the efforts of N.A.P. and their effectiveness on improving the delivery of services. Mr. Truth, Department of Traffic, said that N.A.P. was directly responsible for bringing the community, his agency, and Springfield Gardens High School together and the consequent installation of traffic signs at a dangerous school crossing. He found the actions of N.A.P. quite helpful and essential to establishing a positive communication link between neighborhoods and line agencies. He stressed the point that N.A.P. is not a duplication of complaints nor a sounding board for City Hall but an action liaison between the various city agencies and the neighborhood.

In an interview with Superintendent Charles Malasso of the Sanitation Department, the issue of abandoned cars in Laurelton was discussed. In 1970, 1800 cars were abandoned in Southeastern Queens Sanitation District # 67, in which Laurelton is situated. This number rose to 2546 in 1971. Superintendent Malasso said that N.A.P. and the citizens of Laurelton have been very helpful in pinpointing abandoned cars in the outlying area. Without the help of N.A.P. he felt that his limited patrol manpower could never find the same amount. Due to the positive communication with N.A.P. he has tried to cooperate with the community by picking up cars within 48 hours. Our laboratory group witnessed this co-operation while out in Laurelton one day. An abandoned car was spotted early in the morning and hauled away by late afternoon. In summary, various agency heads were contacted on this matter and their opinions expressed. Overall, N.A.P. has established a positive base of communication with several city agencies in an attempt to improve the delivery of services. Although some improvements have actually occurred, the general public perception as indicated by our survey is that the level of services has remained the same during the past year.

DISCOURAGEMENT OF BLOCKBUSTING

The N.A.P. program has clearly been instrumental in generating blockbusting activities. N.A.P. has shown an ability to channel peoples' frustrations into action. Director Alan Hessel has developed an expertise in this area and both the office and community has significantly benefited from his knowledge. The most important contribution this effort of N.A.P. has made to date in Laurelton is the education and recognition by the community in what is occurring in Laurelton.

The exact effect on reduction of blockbusting is not known, but the incidence of increasing home turnover (see appendix A-4) and the following measure below would indicate that the process of blockbusting is still something to be reckoned with in Laurelton.

COMPARISON OF HOUSE SALE ADVERTISING VOLUME, NEW YORK TIMES AND AMSTERDAM NEWS,
FOR LAURELTON NEIGHBORHOOD, 1969-71

Year	Number of advertisements			
	New York Times	Percent change	Amsterdam News	Percent change
1969.....	426		460	
1970.....	262	-38	533	+16
1971.....	241	-8	581	+9
Total.....	929		1,574	

Note: This measure would appear to indicate an increasing tendency on the part of local real estate agencies to practice selective selling policy; i.e., the encouragement of blacks (through the Amsterdam News), and relative discouragement of whites (through the New York Times), to migrate to the Laurelton neighborhood.

CONCLUSIONS

The evaluation of the Laurelton Neighborhood Action Program was divided into three areas: the effort made by the program, the effectiveness of the Neighborhood Action Program in terms of meeting its subobjectives, and finally, the effect the program has had on stabilization. The conclusions that follow are based, where possible, on empirical evidence, and on our sense of the community resulting from our resident survey and community interviews.

Effort.—Has taken place in the areas of securing capital improvements, organizing block associations, and contributing to the anti-blockbusting campaign. The efforts of the Director are to be commended.

Effectiveness.—Tangible capital improvements: while the major portion of the program has yet to be implemented, the majority of the residents neither knew of the planned improvements, nor were cognizant of those improvements which have already occurred.

Durability of associations: the number of block associations has expanded, and a block association federation has been organized with the help of the program. It is not possible to tell at this time whether these organizations are self-sustaining.

Visibility of the program: our survey indicates it is widely known, but this is merely recognition of the name and few people associated the program and its activities.

Delivery of services: has remained the same during the past year, and the program is concentrating its capital improvement program in the area in which residents registered their biggest complaint (road repair).

Anti-blockbusting campaign: a significant contribution of the program has been in this area. The program has clearly had a major impact in anti-blockbusting activities and in having the community recognize what was occurring.

Effect on stabilization: based on the residents survey, interviews, and our general impressions of the program's goals and accomplishments, we feel the program has not contributed to stemming the tide of racial or economic class out-migration. Perhaps the major fault of the program lies in its being unable to empirically answer the question of the program's effect on stabilization.

RECOMMENDATIONS

Based on our conclusions we recommend that a monitoring system be established to measure (based on the indicators we have suggested or others) the impact of the various programs on the area. The purpose of this effort is to determine which activities are most useful, and whether the program has an actual impact on 'stabilizing' the area. We suggest, for example, that a survey be conducted of the area where the street paving will shortly take place, and that these blocks be closely monitored during the next year.

The sample of the sale of houses in the area indicates that the turnover on several blocks has been minimum. These blocks should be analyzed to see whether

the reasons for low turnover can be applied elsewhere. On those blocks where foreclosures occur, the NAP should move to disquiet the fears of the affected neighborhood.

Finally, we suggest that an intensive effort be made to establish strong block associations and a strong federation. One possibility to consider is the use of these organizations as the means for deciding the type of future capital improvements.

OVERVIEW

The purpose of this section of the report is to take one step back from the position and look at the program from a different perspective. We feel it is appropriate to ask:

What would have happened to these transition areas if no program existed? Would the same trends have occurred?

Is this the proper organization for the task?

Is the concept of visible capital improvements the way to achieve stabilization?

The first question cannot be answered at this time due to insufficient data and the unavailability of a control group. We feel this is an important question which must be answered in order to determine whether the program should be continued. The creation of an index of "stabilization" (while probably crude), and its application to Laurelton and comparable areas where no program exists, would be the first step. We have introduced several possible indicators and suggest that these be examined and others developed.

The latter questions can best be approached by determining the evaluation criteria and alternatives for each. The criteria for program concept are: education of the residents in community affairs, the creation of a feeling that the City 'cares' about Laurelton, and the creation of a positive psychology about the community.

The organizational structure should be as apolitical as possible, have longevity, involve the community as much as possible, be visible, and have some fiscal authority. We suggest that now is the proper time to review these questions and establish an evaluation process which will determine the answers.

APPENDIX A

TABLE A1.—LAURELTON (OWNER): HOUSING OCCUPANCY BY RACE, MEDIAN HOME VALUE, MEDIAN FAMILY SIZE, BY CENSUS TRACT, 1960-70

Census tract	Housing occupancy				Median value		Median family size	
	White		Black					
	1960	1970	1960	1970	1960	1970	1960	1970
328	88	33	12	66	15.1	24.0	3.3	3.9
358	99	54	1	46	16.4	23.5	3.9	3.7
604	100	63		36	17.4	25.9	3.3	3.0
606	99	70	1	29	17.1	24.7	3.0	2.9
608	100	52		41	17.2	26.5	3.2	3.3
610	98	48	2	51	17.5	25.9	3.7	3.3
612	100	72		27	17.3	25.7	3.5	3.2
614	100	80		20	17.6	25.8	3.6	3.2
616.01	99	73	1	27	19.2	27.1	3.6	3.3
618	100	82		17	18.2	24.6	3.6	2.8
620	100	71		28	17.7	25.7	3.3	3.1
626	98	43	2	57	15.6	22.6	3.6	3.6
630	99	57	1	42	17.1	23.7	3.8	3.4
632	99	80	1	19	17.7	24.0	3.7	3.2
646	100	94		6	18.1	24.3	3.3	3.2
650	100	92		7	18.3	24.1	3.7	3.2
682	100	68		31	16.8	22.9	3.9	3.1
Total	99	69	1	30				

Source: U.S. Census Bureau, 1960-70.

TABLE A2.—COMPARISON OF HOME OWNERSHIP AND MEDIAN FAMILY SIZE IN THE 3 CENSUS TRACTS SAMPLED, 1960, 1970, 1972

Census tract	1960	1970	1972
620: Home ownership:			
Percent white.....	100	71	53
Percent black.....	0	28	47
Median family size.....	3.3	3.1	3.8
626: Home ownership:			
Percent white.....	98	43	32
Percent black.....	2	57	68
Median family size.....	3.6	3.6	3.9
646: Home ownership:			
Percent white.....	100	92	72
Percent black.....	0	8	28
Median family size.....	3.3	3.2	3.6
All: Home ownership:			
Percent white.....	99	69	53
Percent black.....	1	30	47

Source: Census data, survey results.

TABLE A3.—SURVEY RESULTS
QUESTION NO. 1

	Total	Black	White
	198	94	104
0 to 2 years.....	40	28	12
2 to 4 years.....	37	26	11
5 to 10 years.....	44	25	19
Over 10 years.....	67	5	62
Percent.....		47	53

QUESTION NO. 2

	Number	Percent
Heard of NAP:		
Yes.....	109	55
No.....	88	45

QUESTION NO. 4

Services	Improved	Worse	Stayed same	Don't know
Garbage.....	24	42	111	9
Police.....	13	43	86	28
Road repair.....	9	140	28	9
Schools.....	17	50	51	59
Transportation.....	29	36	60	58
Total.....	92	311	336	163

QUESTION NO. 5

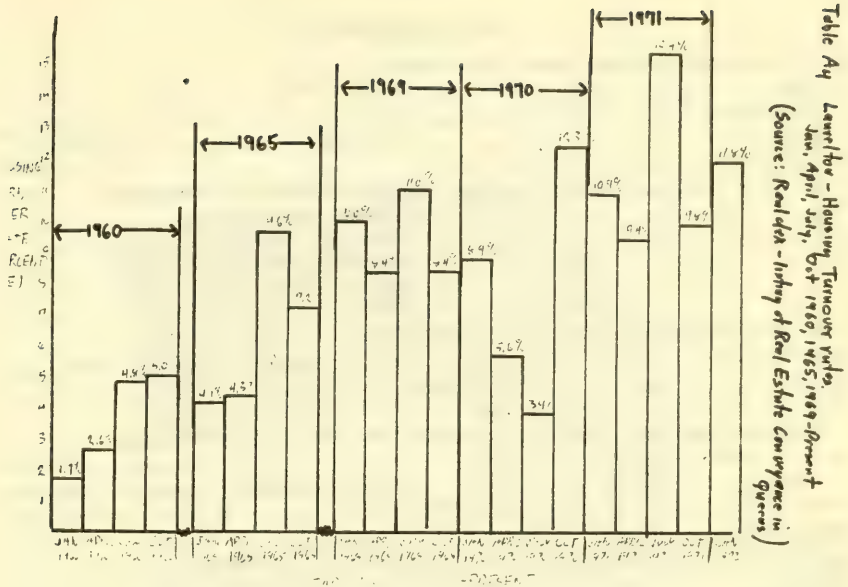
	Number	Percent
Aware of improvements:		
Yes.....	71	36
No.....	124	64

QUESTION NO. 6

Median family size.....	3.8
-------------------------	-----

QUESTION NO. 7

Stay in Laurelton?	170
Yes.....	28
No.....	



APPENDIX B

METHODOLOGY OF SAMPLE SURVEY

An examination of census tract data for 1970 (see Table A, Map C₁) revealed a pattern of racial distribution within Laurelton, i.e., a higher proportion of white-owned households were nearer the western edge, a higher proportion of Black-owned households were on the eastern border, and a relatively balanced area was in the middle. The census tracts were ranked in order of Black-white proportion and then divided into three sub-populations (Map C₁). One census tract within each sub-population was chosen and a systematic sampling method—every fourth house—was used in the three census tracts.

Every block within census tract 620 was surveyed on Saturday, April 1, 1971, from 1:30 to 4:30 p.m. Due to time limitations cluster sampling was used on census tracts 626 and 646. Within the two samples one third of the blocks were chosen. Tract 626 was surveyed from 10:30 a.m. to 12:00 noon and Tract 646 from 1:30 to 3:30 p.m. Both were done on April 8, 1971. The four group members conducted the survey.

NUMBER OF SAMPLES OBTAINED BY TRACT

	Surveys conducted	Units in census tract
Census tract 206	100	435
Census tract 626	45	586
Census tract 646	53	719
Total	198	1,740

If no one was home the next house was surveyed. This was repeated until a response was obtained; the same method was used with refusals. Generally, residents were cooperative and only a few refusals were encountered per block. The questionnaire used is on the following page. See Tables A2 and A3 for survey results.

QUESTIONNAIRE

1. How long have you lived in Laurelton?

Years:

0-less than 1 _____ 5-10 _____
 1-2 _____ Over 10 _____
 2-4 _____

2. Have you heard of the Laurelton Neighborhood Action Program?

Yes _____ Capital Improvement _____
 No _____ Block Association _____
 Anti-block busting _____
 Service Improvement _____
 Other _____

3. Does your block have a block association?

Don't know _____ Do you belong? Yes _____ No _____
 No _____
 Yes _____

4. During the past year, do you feel that the following services have:

Service	Improved	Gotten worse	Stayed same	Don't know
Garbage collection _____				
Police protection _____				
Road repair _____				
Schools _____				
Transportation _____				
Other (specify) _____				

5. Are you aware of any physical improvements that have occurred *during the past year*, or are planned for the future, in the Laurelton area?

Yes _____

No _____

6. How many people are in your household?

1 person _____ 5 people _____
 2 people _____ 6 people _____
 3 people _____ 7 people _____
 4 people _____

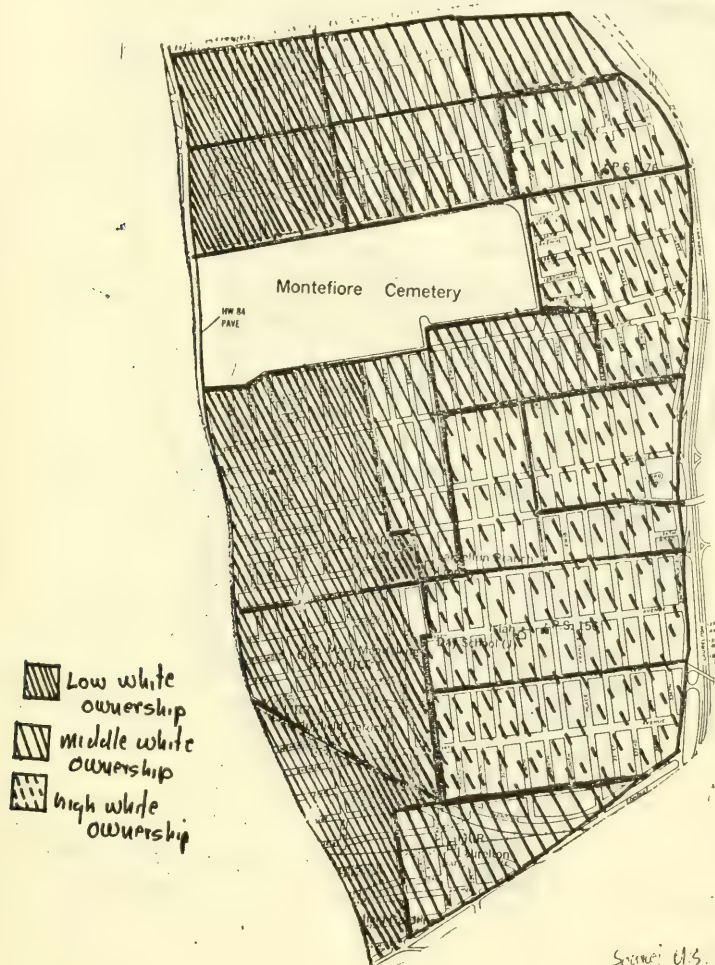
7. Are you planning to stay in Laurelton? Comment why.

Yes _____

No _____

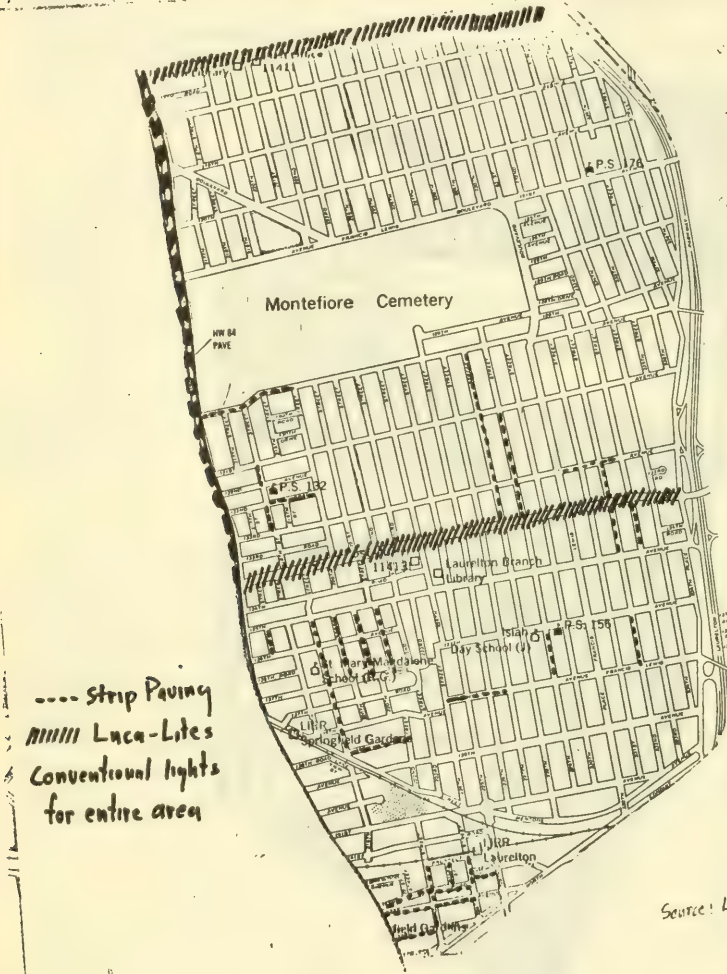
Appendix C

Map C, - Home Ownership. By Rice 1970



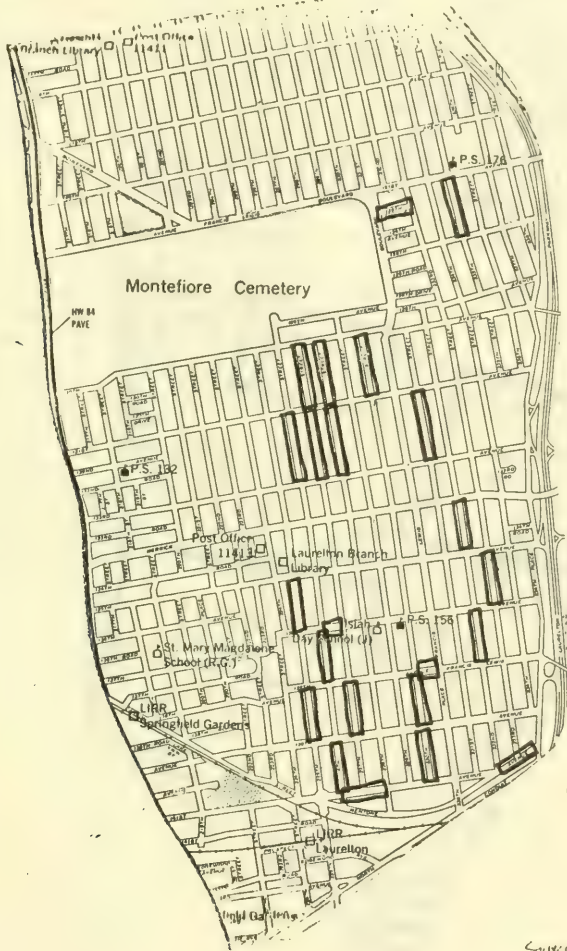
Source: U.S. Census Bureau

Map C₂ - LNAP CAPITAL IMPROVEMENTS



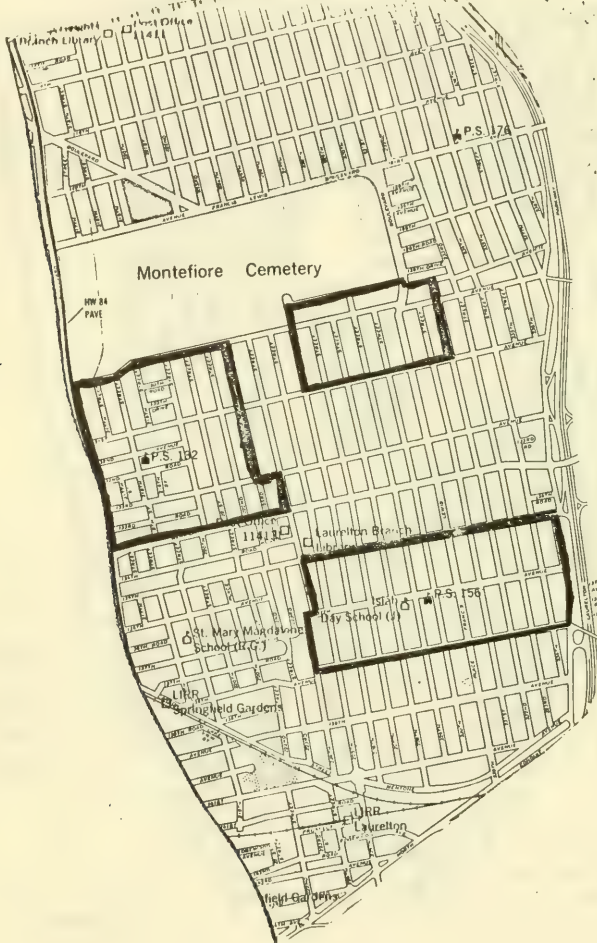
MAP C₃ - Block Associations ..

Based on list obtained from NAP director, April 4, 1977.



Source: Allan Hessel

MAP C4 - Census tracts surveyed.



APPENDIX D

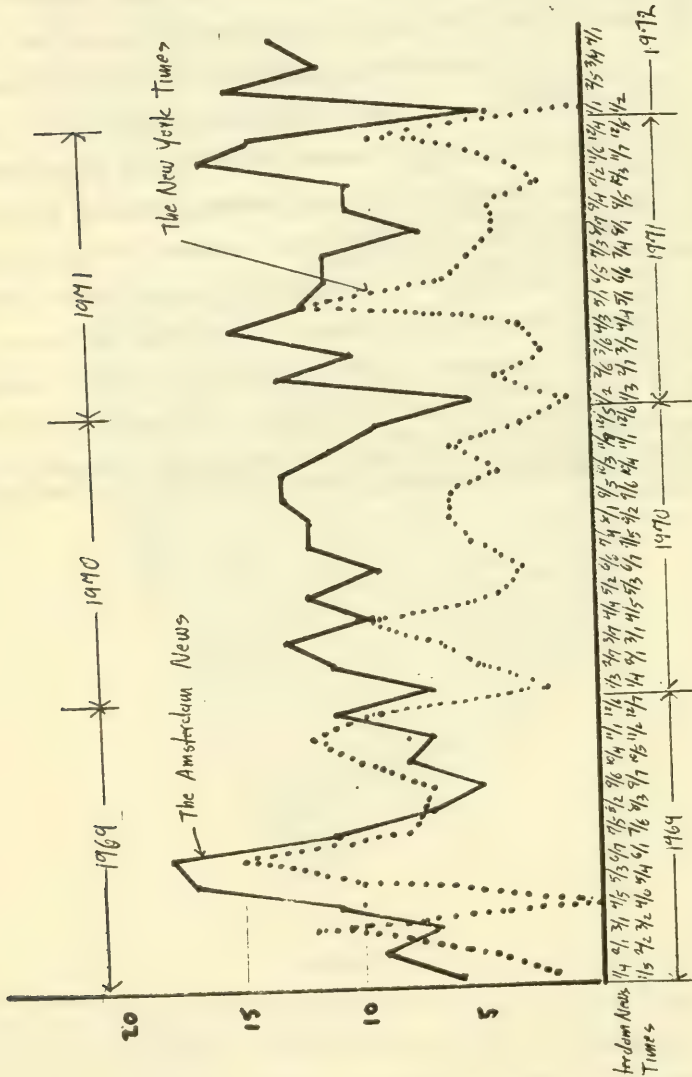
INTERVIEWS

1. Mr. Melvin Artis, President of Mentone Avenue Block Association (personal interview, April 4, 1972).
2. Mr. Paul Brown, Queens Borough Highway Department Engineer (phone interview, April 5, 1972).
3. Dr. Abraham Burstein, Director of Economic Research, Human Resources Administration (personal interview, April 11, 1972).
4. Mr. Butler, Commissioner of Sanitation (phone interview, April 11, 1972).
5. Mrs. Alan Cohen, Laurelton Jewish Center (phone interview, April 10, 1972).
6. Reverend Wilbur Cowen, Laurelton Epiphany Lutheran Church (personal interview, April 8, 1972).

7. Mr. Robert Cuevas, Laurelton Chamber of Commerce (phone interview, April 6, 1972).
 8. Mr. J. Dieranger, Superintendent of Queens Sanitation District No. 67 (phone interview, April 6, 1972).
 9. Ms. Laura Fischer, Human Rights Commission (personal interview, April 4, 1972).
 10. Mr. Harold Hagan, President of Carbo Oil (phone interview, April 6, 1972).
 11. Mr. Alan Hessel, Director of Laurelton Neighborhood Action Program (personal interview, April 4, 1972).
 12. Mr. W. Katzberg, Laurelton Jewish Center Community Relations (phone interview, April 6, 1972).
 13. Ms. Marcia Kranes, Long Island Press Reporter (phone interview, April 6, 1972).
 14. Mr. C. Malasso, Superintendent Sanitation Queens Borough (phone interview, April 11, 1972).
 15. Mr. J. Palminteri, Laurelton Athletic Association (phone interview, April 7, 1972).
 16. Mr. J. Policano, Community Planning District No. 13 (phone interview, April 10, 1972).
 17. Mr. K. Simons, Executive Committee Laurelton Federation of Block Associations (phone interview, April 7, 1972).
 18. Mr. J. Steingold, Executive Committee Laurelton Federation of Block Association (phone interview, April 6, 1972).
 19. Mr. Truth, Department of Traffic Queens Borough (phone interview, April 11, 1972).
 20. Mr. Patsche, Queens Borough Director of Park Facilities (phone interview, April 10, 1972).
 21. Mr. Edward Burt Feinman, DUAPA CNYCA intern for New York Board of Education (personal interview, April 6, 1972).
 22. Mr. Robert Wagner, Robert D. Wagner & Company, Inc., Real Estate Consultants (personal interview, April 7, 1972).
- In addition to the above mentioned interviews and the community survey, numerous informal conversations were conducted with citizens of the Laurelton neighborhood.

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Chart D, Advertisements for homes in Louvelou in the Amsterdam News (Saturday) and the New York Times (Sunday). For the first Saturday and first Sunday of the month, 1909, 1970, 1971



Source: Amsterdam News, NY Times

EXHIBIT 8

Department of State, State of New York Public Hearing to Declare East Flatbush, Crown Heights, Brooklyn, and Cambria Heights, Laurelton, Long Island Non-Solicitation Areas

DEPARTMENT OF STATE, STATE OF NEW YORK,
July 8, 1971.

PUBLIC HEARING TO DECLARE EAST FLATBUSH, CROWN HEIGHTS, BROOKLYN, AND CAMBRIA HEIGHTS, LAURELTON, L.I., NON-SOLICITATION AREAS

Upon a hearing held June 30, at the office of the Department of State at 270 Broadway, New York City at 10:30 A. M. and at Tilden High School, East 57th Street and Tilden Avenue, Brooklyn, N. Y. at 8 P. M. and a transcript of such hearing having been duly filed and a public hearing having been called by the Secretary of State to determine whether an order should be issued restricting licensed brokers and salesmen from soliciting listings for sale of properties owned by resident homeowners in the East Flatbush and Crown Heights areas of Brooklyn and the Cambria Heights and Laurelton areas of Queens, N. Y. and having filed due proof of notice to 2600 real estate brokers and to the Brooklyn Real Estate Board and Long Island Real Estate Board and all other interested community and civic associations representing the homeowners in said areas and the following persons having appeared in support of said order:

Vito Battista, Assemblyman, 38 E.D.; City Councilman, Ted Silverman; Herman Brown, Executive Director of American Jewish Congress; Rabbi Solomon Shapiro; Irving Klein, of the Hyde Park Community Association of East Flatbush; Bernard Klein, Executive Director of the East Flatbush Civic Association; William Katzberg, of the Laurelton Fair Housing Council; J. E. Steingold of the Laurelton Fair Housing Council; Daniel Martin, of the Beverly-Tilden Block Association, Herman Kramer, Executive Counsel of the East Flatbush Civic Association; Sidney Goldner, Director of the Neighborhood Action Program in East Flatbush of the City Planning Commission of the City of New York; Allen Hessel, Director of the Neighborhood Action Program in Laurelton of the City Planning Commission of the City of New York; Russell Washington, Deputy Director of the Neighborhood Action Program in Laurelton; Reverend Wilbur Cowan, Pastor of the Epiphany Lutheran Church in Laurelton; Joseph Licciardi of the Interboro Action Committee in East New York; Rabbi Hecht and Rabbi Frankel; and after hearing 750 resident homeowners at Tilden High School in support thereof and after hearing in opposition thereto the following persons:

Assemblyman Vander L. Beatty of the 54 E.D.; Robert Buckner of the Bedford Stuyvesant Real Estate Board and Bishop Charles Stevenson, Licensed Real Estate Broker and Pastor; Doris B. Turner, Licensed Real Estate Broker; Morris Vogel, Licensed Real Estate Broker and Jesse Gardner, Licensed Real Estate Broker.

And reading the statement of Eleanor Holmes Norton, Chairman of the City Commission on Human Rights announcing a public hearing "to bring an end to this illegal and immoral activity" and that "many real estate agents have circumvented the law by avoiding direct racial or ethnic representatives." That her staff has knocked on 1500 doors, conducted 500 interviews in the Laurelton-Cambria Heights-East Flatbush-Crown Heights areas and that she has "ample circumstantial evidence to indicate that unscrupulous realtors are deliberately fomenting fear and racial bigotry in said areas" and that her agency will move against those who engage in blockbusting that produces panic, financial loss and destruction of neighborhoods . . . undermine the fabric of racial integration mandated by law.

Now, therefore, by reason of the foregoing I find that there is improper and excessive solicitation and harassment of homeowners generating fear and panic in the resident homeowners conducive to blockbusting seriously and substantially rendering impossible the orderly integration and preservation of the stability of the community and promoting the exploitation of minority groups in the areas designated and known as Crown Heights, East Flatbush of Brooklyn

and Cambria Heights-Laurelton of Queens, New York and whereas the accelerated participation in the aforesaid illegal and immoral activity renders time to be of the essence.

Now, by reason of the aforesaid findings and by virtue of the inherent power vested in me as Secretary of State pursuant to Article 12-A of the Real Property Law I hereby

Ordered that all licensed real estate brokers and salesmen are hereby restricted and shall cease and desist from soliciting (listings of properties for sale and for purchase) in any manner whatsoever including but not limited to letters, postcards, telephone calls, door to door, window signs, billboards, advertisements by handbills or news publications in the area in Brooklyn, New York known as East Flatbush—Crown Heights bounded on the

North by Atlantic Avenue

West by Flatbush Avenue down to Winthrop Street, East to New York Avenue down New York to

South to L.I.R.R. Cut at Avenue H

East to Ralph Avenue into Rockaway Parkway

And in the area of Queens, New York known as Cambria Heights—Laurelton bounded on the

North by Murdock Avenue

South by North Conduit Avenue

East by Laurelton Parkway & County Line

West by Springfield Blvd.

That all solicitation be and is hereby prohibited until further notice.

That any violation thereof shall subject the licensee to the penalties provided in Section 441-c of the Real Property Law.

JOHN P. LOMENZO,
Secretary of State.

EXHIBIT 9

Correspondence Between the Subcommittee and The Cambria Heights Civic Association Dated November 29, 1971, Listing Real Estate Brokers on Linden Blvd. in Cambria Heights, New York

THE CAMBRIA HEIGHTS CIVIC ASSOCIATION, INC.,
Cambria Heights, L.I., N.Y., November 29, 1971.

Mr. RICHARD SALITERMAN,
*Senate Anti-Trusts Monopoly Subcommittee,
New Senate Office Bldg. Annex,
Washington, D.C.*

DEAR MR. SALITERMAN: Sorry for the delay. I was anxious to obtain documentation on the specific items about which we spoke when you were in Queens, N.Y. last month.

Enclosed is a list of real estate brokers, many of whom have opened their business within the last 3 years. All of these are located on Linden Blvd. our business street from 217 St. to 234 St.

We feel they are there only to stimulate changes in homeownership. Our neighborhood is presently about 40% black and 60% white. Through the efforts of our Association we have succeeded in having most of Cambria Heights (a community of 7,000 homes) declared a non-solicitation area by the Div. of Licenses of the Secretary of N.Y. State's office.

Presently we are hoping the Commission on Human Rights will prevent speculators and dealers from soliciting since they do not come under the regulations of the Div. of Licenses.

Such an action will only come about if the Legislature of our State passes such a law. In addition we are hopeful that the Legislature will give the Commission on Human Rights the authority to restrict any further sales of homes in our area by brokers and dealers if such sale adversely affects the racial balance. Otherwise we feel there is little hope for stability in integrated communities. Such a law is not designed to prevent an individual homeowner from executing the sale of his home.

We feel that FHA and VA mortgages seem to be available only within certain areas. As an area becomes largely black these mortgages become more difficult to obtain while conversely the mortgages are given for almost full value in less integrated areas.

Other problems we are experiencing in our integrated neighborhood are as follows:

1. Insurance (plate glass, burglary, fire) have become more restrictive; in some instances companies have refused to renew policies although the insured has had no unfavorable experiences.

2. Occupancy problems largely due to unscrupulous brokers misleading the purchasers of homes into thinking they can rent part of the house to other families, (illegal occupancies).

3. Sales to unqualified buyers by extending purchase money (2nd mortgage). In a short time these people fall behind in their payments and neglect maintenance.

4. City of N.Y. guilty of placing welfare clients in private houses for a monthly rental. Such rentals are very bad when no provision is made for the maintenance of the property or the house. We have had a welfare mother with 9 children in a private detached house which resulted in the moving of her neighbors on each side because of the run down condition of the house in a little over one year.

The foregoing contributes greatly to the deterioration of the character of a neighborhood without having a single thing to do with integration.

Thank you for your interest and we are hopeful that the Sub-Committee will bring out the evidence that will make bankers, mortgagors, insurance companies and brokers more responsible.

Very truly yours,

WILLIAM A. PFIFFER,
President, Board of Officers.

LISTING OF REAL ESTATE BROKERS ON LINDEN BLVD. IN CAMBRIA HEIGHTS, N. Y.

1. George Danelle, 233-22 Linden Blvd.
2. Mr. Beaudu, 231-07 Linden Blvd.
3. John E. Blessinger,¹ 230-11 Linden Blvd.
4. Kaybet Realty,¹ 229-24 Linden Blvd.
5. Kaufman Realty, 228-11 Linden Blvd.
6. Lloyd Meyers,¹ 227-03 Linden Blvd.
7. Rela Estate Inc.,¹ 227-01 Linden Blvd. (rear store facing 227th Street).
8. Sheridan Realty, 225-20 Linden Blvd.
9. Joslyn Dixon, 225-21 Linden Blvd.
10. 5th Avenue Realty,¹ 225-01 Linden Blvd.
11. F. J. Smith, 224-08 Linden Blvd.
12. Ballentine Realty, 224-02 Linden Blvd.
13. Hawley & Hawley, 222-21 Linden Blvd.
14. Que Ville Realty, 222-20 Linden Blvd.
15. Franklin Morris,¹ 220-05 Linden Blvd.
16. Real Estate Broker,¹ 219-11 Linden Blvd.
17. Marcel Fleury,¹ 219-15 Linden Blvd.
18. Real Estate & Improvement,¹ 217-09 Linden Blvd.
19. Long Island Homes, 216-17 Linden Blvd.

The foregoing information was given under oath at a public hearing in July, 1971 conducted by the Commission on Human Rights inquiring into block busting tactics.

EXHIBIT 10

Correspondence From Allen Hessel of the Laurelton Neighborhood Action Program to Senator Hart Asking for Investigations of Housing in Laurelton

LAURELTON NEIGHBORHOOD ACTION PROGRAM,
Laurelton, N.Y., September 16, 1971.

Senator PHILIP A. HART,
*Chairman, Senate Antitrust and Monopoly Subcommittee,
U.S. Senate, Washington, D.C.*

DEAR SENATOR HART: After reviewing the statements of speakers appearing before your hearing and listening to the testimony given, I can only further extend an invitation to your subcommittee to begin preparations for a hearing in New York City. The Neighborhood Action Program was established by the City of New York to combat the deterioration of six middle income communities undergoing ethnic change and the target of "blockbusting activities." In particular, two of these six areas, East Flatbush and Laurelton are undergoing the same

¹ Indicates business was opened recently (within the last 3 years).

vicious changes as brought out in these hearings in Boston. Both Mr. Sidney Goldner, area director for East Flatbush, and myself have been engaged in bringing to the attention of City and State agencies much of the same type of testimony presented here. Although there is no "red line" in New York as a result of a predetermined agreement by bankers, we can show a "de facto" line within these communities.

We have been successful in obtaining a Non-Solicitation designation for these areas through the N.Y. Sec. of States Office and in preparing discrimination cases through the City Commission on Human Rights. However, solution to these problems must be sought at the Federal level, particularly in regard to the F.H.A. and V.A. mortgage activities in these areas. Would you therefore, closely examine our request for a hearing to be held in New York City.

I refer you to my previous letter of August 18 and the written approval of Rep. Joseph Addabbo, Congressman.

Thank you for your cooperation in this matter.

Very truly yours,

A. W. Hessel,
Area Director.

EXHIBIT 11

Copy of Advertisement for Public Equities Corp.

PUBLIC EQUITIES CORP.,
FHA APPROVED LENDING INSTITUTION,
Hempstead, N.Y.

Sure! What do you care?

Here we knock ourselves out with letters, attractive mortgage kits and personal visits to your office by our representatives, and—are you ready for this?—Some of you have yet to give us a chance!

What more can we do? Give us a hint!

Do you like qualified representatives to take credit on contract?—We do it.

Do you like your applications processed with loving care?—Gloria does it.

Do you like fast, efficient, on-time closings?—Frank Rinaldi will oblige you.

Do you like courteous, respectful, intelligent representatives calling at your office?—Our man in your area, John Gorman, is that.

Do you like honest, competitive quotes?—Don Glachman and Don Renehan, the Jewish and Irish Mortgage Mavins, will give them to you and live with them—Even if it hurts.

So come on! Try us—You'll like us!—You'll like us!—You'll like us!

DONALD GLACHMAN.
DONALD RENEHAN.

EXHIBIT 12

Jewish Council of Southeast Queens Statement of Policy—September 14, 1971, Concerning Housing

JEWISH COUNCIL OF SOUTHEAST QUEENS, STATEMENT OF POLICY

The 10,000 Jewish families of Southeast Queens find their position as a Jewish community in the metropolitan area at a critical crossroads.

Although many cities all over our nation are witnessing the flight to the suburbs, the Jewish community, more than any other ethnic group has become debilitated more rapidly for several diverse, sociological reasons. The plight of the Jewish families remaining becomes difficult and ultimately unmanageable because of the needed attachment to other Jews, the Synagogue and Jewish life, essential ingredients for most of us.

Despite the recognizable syndrome, influential Jewish organizations who have performed yeoman service for Jewry for many years—are today transfixed and seemingly prepared to write off Jewish community after Jewish community without any definable supportive program for such local Jewry. Bland suggestions to upgrade city services while exhorting Jewish families to remain, are simply inadequate band-aid therapy. The problems are more deep rooted.

We have no desire to rake over serious and fundamental differences we find with Jewish national organizations. This would only be counter-productive and would produce a re-hash of old rhetoric. We would rather look forward together—and to constructively challenge ourselves as well as the Jewish national establishment to face up to the complex social crisis facing Jews in the city. At this juncture of Jewish history in metropolitan New York, national Jewish solutions—new and

imaginative—must be developed—and soon—if we wish to retain Jewish communities within the city.

In southeast Queens, an area of predominantly one family, middle income homes, the Jewish community has shown a remarkable resilience and endurance in fighting the syndrome. It is a place where a concerted effort has the most favorable chance of success. It is for such reasons that we, The Jewish Council of Southeast Queens advocates the following:

We propose the creation of a one half million dollar fund by Jewish organizations to be made available to Jewish families—as 'no interest down payment loans' for buying homes in the Jewish communities of southeast Queens.

A similar program on a smaller scale has already been organized for the Cleveland Heights area of Cleveland, Ohio—funded by The Hebrew Free Loan Society and the Cleveland Jewish Community Federation.

It is for such reasons that we have called together many Jewish organizations this evening because we have taxed the limits of our local abilities and remedies. This is the time in history and the place to make a national investment. It is an agonizing challenge to national Jewish leadership that cannot be ignored much longer. It cannot be laid aside as a memorandum on someone's desk to file for posterity—or written off in moral sermonizing. We won't allow ourselves to go unnoticed in seeking Jewish philanthropy to save a Jewish community.

We have offered the specific idea of The One Half Million Dollar Fund and look to your organizational apparatus to pick up the ball and create a viable machinery for this task. We ask you to bring this proposition to your national constituencies with the urgency equal to the moment. Thousands of Jewish families will be watching how we respond to the challenge.

FEDERAL HOUSING PROGRAMS

WEDNESDAY, MAY 3, 1972

U.S. SENATE,
SUBCOMMITTEE ON ANTITRUST AND MONOPOLY
OF THE COMMITTEE ON THE JUDICIARY,
Washington, D.C.

The Subcommittee on Antitrust and Monopoly convened in room 1202, New Senate Office Building, at 10:30 a.m., Philip A. Hart (chairman) presiding.

Present: Senators Hart and Fong.

Staff present: Howard O'Leary, Esq., staff director and chief counsel; Jack Blum, assistant counsel; Peter M. Chumbris, chief minority counsel; Charles E. Kern II, minority counsel, Janice Williams, clerk; and Patricia Bario, editorial director.

Also present: Richard Nolan, staff of Senator Hruska.

Senator HART. The committee will be in order. I want to apologize for this delay in starting. There was a caucus of the Democrats in the Senate called for this morning, and the subject matter was means of terminating our military presence in Indo-china.

I hope all will agree that that had priority.

Our first witness is the secretary of state for the State of New York, the Honorable John P. Lomenzo.

STATEMENT OF JOHN P. LOMENZO, SECRETARY OF STATE, STATE OF NEW YORK

Mr. LOMENZO. Good morning, sir.

Senator HART. Good morning.

(Whereupon, Mr. Lomenzo was sworn by the chairman.)

Mr. LOMENZO. I wish to present Mr. Patrick Cea, who is counsel to the Secretary of State and may assist me in testifying. I suggest he ought to be sworn also.

(Whereupon, Mr. Cea was sworn by the chairman.)

Senator HART. Gentlemen, thank you and welcome.

Mr. LOMENZO. Thank you.

Senator Hart, I'd appreciate the opportunity, first, to make a statement in connection with this matter because I believe that in the Department's case, because of our peculiar relationship to the problem, that we are in a position to give a history of the matter that might be of some assistance to this committee.

I appreciate this opportunity to appear as a witness before the U.S. Senate Antitrust and Monopoly Subcommittee to discuss the most vital question of alleged mortgage and other housing irregularities.

I particularly want to express the appreciation of the Secretary of State to Chairman Senator Philip A. Hart, who with his Senate colleagues has demonstrated a keen awareness of the seriousness of the disclosure of fraud in the housing field, primarily where mortgages are insured by the United States.

What is most unfortunate about the disclosures is that low-income minority persons, in the main, have been victimized by manipulators. I mean, unscrupulous real estate brokers and dealers, and I wish to emphasize the word "dealers," Senator, because as we progress here, they take on a very significant meaning in all of this.

The dealer is an unlicensed individual and is somewhat immune from discipline for many reasons except, of course, when the dealer goes far enough to commit a crime. And then, of course, he comes into the jurisdiction of the local law enforcement agencies and extends the activity of these people which has resulted in foreclosures because the owners found altogether too late that they were not financially able to meet the mortgage payment.

For a few moments, I wish to review what the New York Department of State has done during the past 7 years in the housing field, what we have uncovered as a result of our investigations into this practice of blockbusting, and how our disclosures led to a Federal grand jury investigation in the Eastern District of New York with the resultant indictments of 10 real estate and mortgage lending firms, and some 40 individuals.

The secretary of the State of New York is vested with jurisdiction over licensed real estate brokers and salesmen. And, at the present time, in the State of New York, there are some 67,000 such licensees.

And we became directly concerned with the social and housing problem by reason of the activities of some of these licensees, real estate dealers, and speculators.

A brief history is essential, I believe, to understand the cause and the origin of the problems. Hopefully, this history might serve as a basis for some remedial action.

When World War II ended, many members of minority groups had raised their economic status to that of a middle income and were able to afford better housing which they desired. What happened was that they had choice, and they wished to take advantage of that choice, particularly in acquiring a home for themselves and their family.

As a result, many minority persons purchased homes in a middle-income community known as Baisley Park, in St. Albans, Queens, in the city of New York. This is where it started.

The influx of new homeowners into this community resulted in a short period of a few years from the resegregation of the community from all whites to virtually all blacks. However, the new homeowners were qualified purchasers and were able to maintain their homes and preserved a well-established, maintained community.

This experience, you see, planted a seed in the minds of these brokers and dealers and speculators. They saw a complete turnover of homes and equated this, in their minds, with the commissions that are involved.

So that they realized now the lucrative market that was available, that there was this kind of a complete changeover. As a result, they looked for other communities in which they could negotiate the sale of homes to this middle-income, minority purchaser.

The next community selected was Bedford-Stuyvesant in Brooklyn, N.Y. which in the main was a well-kept middle-income white area.

As this community was integrated, the real estate brokers discovered that the middle-income minority group were comparatively few in number. They then conceived the idea of selling homes to the members of the low economic status groups. Their project became the poor, without regard to race, creed, or color.

At that time, the low economic purchaser was not qualified to obtain a bank mortgage loan, whether FHA or VA insured. The rules hadn't caught up with the need, you see, at that time.

Now, the purchase of these homes by low economic persons was then accomplished through a series of three mortgage loans consisting of a first, second, and third mortgage loan. How did it work?

The broker-speculator would induce a white homeowner to sell his house on the representation that the entire neighborhood was undergoing a change—block busting, inciting this panic which produced, in some areas, a mass exodus of people from an area, primarily because of economic reasons.

A home pretty much represents the total life savings of a family. And when they were told that it was going to depreciate anywhere between 20 and 30 and 40 percent because of this radical change, they panicked and would take what they could get.

Let's say the market value of the house was \$15,000. The speculator would offer to buy it for \$10,000, all cash, with the homeowners readily accepting as they became panicked and desirous of moving out of the community.

The speculator would then resell the house to a low economic purchaser for the sum of \$22,000 to \$24,000, reflecting a spread already of \$12,000 to \$14,000 to work with.

Banking institutions, generally at that time, refrained from giving any mortgage loans in areas which were subject to transition. What was the reason? Economically, it wouldn't work, they thought, and there was a high risk involved.

The speculator, now, would then take back a first purchase money mortgage of \$10,000 to \$12,000 covering the cost of the purchase of the house. Then, he would take a second purchase money mortgage for 60 percent of the balance or \$6,000 or \$8,000, and a third money mortgage—purchase money mortgage—for the remaining 40 percent of the balance.

Now, he would turn around and sell these three mortgages. You see, he would sell the first one usually at a 10-percent discount. Now, when he did that, he got all of his money back plus about \$800.

The second and third purchase money mortgages would be sold. The second one, for example, usually would be sold at a 20-percent discount. And the third, and the last, they would sell it at a 50-percent discount.

And if you put all of these figures together, you get an approximate profit of about \$9,000 plus whatever commission was involved, originally on the sale by the white homeowner, for the price of \$10,000.

In some of the hearings held by the New York Department of State against three brokers, for example—to give you an idea of the plight of the people there—it was learned that this company had purchased a business of a deceased real estate broker who operated exclusively in Bedford-Stuyvesant.

When he died, three brokers purchased part of his estate. And one of the assets consisted of \$674,000 worth of judgments and notes taken by this real estate broker against minority group purchasers.

Of course, what this reflected was that the people—the purchasers in Bedford Stuyvesant had no cash. They were unable to maintain their obligations and lacked funds to provide for the maintenance of the homes which they purchased.

Of course, this led to a deterioration of the community, the eventual destruction of the area into a ghetto, which is what the people wanted to get away from in the first place.

And in the past 2 years, similar blockbusting activities occurred in East Flatbush and Crown Heights, and also in Brooklyn, N.Y.

Now, the New York secretary of State, in 1961, as a result of complaints received of blockbusting in certain areas, promulgated a rule which prohibited blockbusting by any real estate broker or any salesman making any statement or indulging in any activity which would lead a homeowner to believe that his property would depreciate in value due to the influx of persons of a different race, color, or creed.

And we then proceeded, under this rule, to revoke quite a few licenses when the rule was violated. But I must admit that it just wasn't easy.

One of the most difficult things to prove by direct evidence is blockbusting. They do it in many subtle ways. But whenever we were able to, we proceeded, filed charges, hearings were held, and when appropriate, proper and appropriate action was taken against the license of the individual, and the secretary of state, today, has the power to revoke or to suspend and/or fine the individual.

Now, the licensed broker and salesman realized that he could not indulge in such activities and they also knew exactly the consequences because, let's say, the active real estate broker might have as many as 30 or 40 salesmen who worked for the company under the license of the broker. And if we revoked the broker, 30 people would be thrown out of work and out of that office. And we were doing that.

There were many and varied techniques applied to blockbusting. How would they do it? Excessive solicitation. Suddenly, three or four times a day, the doorbell would ring. People would ask if they wanted to sell their property; post cards, advertisements, radio, television.

In one instance, as I recall, an individual hired, got a permit, and went through an area with a sound truck proclaiming that it was time to move, and it panicked the people.

Now, why was this important to these individuals? You can just imagine when you're talking about 3,000 homes, the kinds of commissions that are involved, the kind of spread that there is. So the money was there. It was a lucrative market for this kind of activity.

In 1963, for example, Senator, the Secretary of State received complaints from 1,000 homeowners in Cambria Heights, Queens, because of the excessive solicitation in this area. And the problem that we had then was, how do we proceed to establish by sufficient evidence, which is required, to prosecute these individuals?

I remember one particular day when the legal staff was together, we discussed the problem. Now in New York, the requirements of an individual before he can be licensed in the field of real estate must have good character. He must complete whatever schooling is required, or equivalent experience. And he must come up with the conclusion

that he is a trustworthy person. That's a very important term because it has been passed on by the highest court of our State, and gives wide latitude to the Secretary of State in determining whether the person is trustworthy.

The important thing, also, is that that person continue to be trustworthy, not only in connection with his conduct as a real estate broker and in his field, but as an individual in the community.

If a person, for example, were convicted of a crime, his license would be subjected to action, not because he had defected in his responsibility as a real estate broker, but in his position as a member of society.

The solicitation was the thing that was causing it all, and if we could stop solicitation, we might be able to remedy this problem to some appreciable extent.

So we devised a system. And I mention this because it might be of some value to others in the other States in the United States in dealing with this problem with particularly brokers, dealers or speculators.

Every individual in the United States who owns property, of course, has the absolute right to peaceful enjoyment, as you know, subject only to certain areas of public welfare like the installation of plumbing fixtures. They have to be inspected, as you know, by the municipal authorities in town.

Every homeowner gives, in law, an implied consent to be solicited. This is why Mrs. Hart may very well be busy in the kitchen and the doorbell rings, and she has to leave everything, go to the front door; your property, and the Fuller Brush man is there, the Avon girl is selling, or some solicitor.

They have a right to do this. It is not a transgression against the peaceful enjoyment of your home and your property because there is an implied consent to be solicited. However, the homeowner has the absolute right to revoke that implied consent to be solicited by posting a sign as you see in some of these new buildings, "No Soliciting, No Peddling Allowed," et cetera.

Once that implied consent is revoked by the homeowner, then a person who solicits, contrary to that notice, commits a trespass upon the rights and the property of the individual.

What we did in New York was this: We asked these people to send me a letter—what we did is we put it in the form of a petition—and it read something like this; addressed to me at the Department of State:

We own the property listed next to our name. We are not desirous of selling it or leasing it, or disposing of it in any way. We hereby revoke the implied consent that exists to be solicited for this purpose.

Now, there had been a valid revocation of that implied consent to be solicited.

I then notified brokers within a 10-, 15-, 20-mile radius, those that we felt would be operating in this area, and advised them and sent them a list of all of these homeowners, and I said in effect, "The implied consent to be solicited has been revoked. If you go into this house to solicit them in any way, you will be committing a civil trespass and possibly a criminal trespass against the rights of that homeowner. And if you do this, I will consider it to be untrustworthiness, and I'll revoke your license." It worked.

Thousands of these came in. It stopped, frankly, this kind of solicitation almost completely, but not quite, because we still proceeded against individuals who violate what we call now the "Cease and Desist Order." And I respectfully suggest and submit that that is a device that might very well be looked into for use by those who find themselves, in other States, in similar positions, as well as in local communities.

I can say now that more than 50,000 homeowners have filed statements in the Department involving the communities in Cambria Heights, Laurelton, Springfield Gardens, Freeport, Uniondale, Hempstead, Queens Village, East Flatbush, Crown Heights, East New York, in Brooklyn, N.Y., and, by the way, it's also creeping up upstate in Rochester, N.Y., and in Buffalo.

The cease and desist order did have salutary effect in this regard. In 1965, because of the growth of this problem and the consequences, the frustration, the catastrophic effect on the people, the Secretary of State established a civil rights unit to enforce complaints of discrimination and violation of the Metcalf-Baker Fair Housing Law in the State of New York.

You see, the Department of State licenses approximately 500,000 people in all fields of endeavor, and like all State agencies, we've been somewhat restrictive in investigative personnel.

And in view of this ugly operation, particularly in the city of New York, I requested the Bureau of the Budget to give me the funds and enable me to put together a civil rights unit. And I must say that they have done a most extraordinary job. I have only seven when the city of New York has over 8 million people, and the State of New York with about 20 million people.

Now, previously, the Department of State was concerned mostly with enforcing the prohibitions against discrimination, blockbusting and violations of the cease and desist order. One day, as we are checking into blockbusting, we realized that there was some other type of activity, that there was a very important tool of blockbusting.

And that had to do with the fraud that now all of us know about; relating to it, they changed certain mortgages.

The maximum legal interest rate in New York, at that time, was 6 percent. And mortgage applications for FHA, GI mortgage loans were being granted by the FHA at $5\frac{1}{2}$, plus one-half percent for insurance, and 5 to $5\frac{1}{2}$ for GI mortgages.

The cost of obtaining mortgage money began to rise steadily, and in 1965 and 1966, the prominence of a mortgage service funding company began to take hold, a new financial middleman. Prior thereto, most mortgage applications were made directly to banking institutions.

It was, at this time, that finally the idea of financing the purchase of homes by low economic groups with a three-mortgage loan procedure was eliminated. Why not? The speculators had in this spread to work with like in that illustration I gave—which by the way, was a factual matter—that was anywhere between 10 to 12,000 to begin with, which would deduce a net of about 9.

They didn't need to do that any more because the speculators were able to apply to the mortgage service funding companies, which would charge points at discount in obtaining such mortgage loans

which the speculator was able to pay by reason of this spread that I referred to.

Now, the legislature of the State of New York, due to the tight money lending situation, raised the legal rate of interest from 6 to a maximum of 7 percent—7½ percent. The tighter the money market, the more business was directed to the mortgage service funding companies who, in a few years, were the only lenders accepting mortgage applications.

This was the channel through which you got a mortgage. Discounts on the mortgage loans ranged as high as 11 percent for FHA insured mortgage loans at 7½, plus one-half for insurance. Now, to cut the discount rate, the FHA, 2 years ago, raised the maximum amount for FHA insured loans to 8½ percent, plus one-half percent for insurance.

And this had the result of reducing the demands for discounts from 9 to 11 percent. They dropped from 4 to 6 percent. In order to meet the payment of the discounts, and other expenses, the real estate dealers and speculators, and licensed real estate brokers began to speculate and flock to communities which were 10 percent to 15 percent integrated, and started a massive campaign of solicitation.

And who were they looking for? The poor; white, black, English-speaking, Spanish-speaking. Of course, in the main, a substantial number of the victims in all of this were the black people, and the Spanish-speaking people because there are more of those, unfortunately, in the low economic groups.

Now, the results of our investigation took us to a particular case where we were astounded to find that a family that absolutely had no financial stability or financial income or standing to secure a mortgage, had actually qualified for a mortgage and the purchase of a home of about \$28,000. And this was the beginning.

We decided to look into that completely and specifically. And then, we found that many of the purchasers in the low economic status, unqualified purchasers who were approved for mortgage loans got them based upon the falsification of their employment and financial status.

They were induced to purchase these home because they were crying for housing, and we don't have enough housing anywhere, because the unscrupulous people would say to them, "Never mind renting a house, buy one. It won't cost you anything. What have you got to lose?" And that's the way it went.

The methods used by these individuals is incredible. In order to establish credit, they would actually pick up at some local Internal Revenue Service office blanks of income tax forms, would make them out, submit them as part of their application for mortgages.

Under FHA regulations, a certain amount of money is required to be on hand, in the ownership of the applicant, the purchaser of the home. These individuals would, at the appropriate time, deposit their own funds in the name of applicant, the purchaser, \$1,500. So, when the check was made, they qualified.

The income tax form showed that they had an income. The credit reports, which were also falsified, indicated that they had good credit. And when they looked to see if they had the required funds to close the transaction, they found \$1,500 in the bank. Of course, right after it was over, the individual who put money in in the first place, would take it out. And this was the way it went.

And this could not have been possible unless there was absolute complete specific cooperation from the top to the bottom in certain areas.

Now, what would happen, the owner of the home would end up with the \$28,000 mortgage, had no money, and then in order to struggle and try to keep up the place, he would take in tenants, boarders, and fill up the house. We'd find something like 15 people trying to live in a house.

It wouldn't work out. There was no money for maintenance. The property would deteriorate. And they would be foreclosed and thrown out in the street. And then, you would have the consequence of that human reaction; frustration with the system and the establishment, and all of these things that have caused such disorder and such distrust of things.

I might say that I'd be less than honest to indicate that in some of these instances, people who were the victims knew what was going on, participated in the criminality. But in the main, these were people who couldn't read or write English in many instances; people who had trust and believed particularly in the licensed individual who had the imprimatur of the sovereign State of New York in the license that he held, and there was that trust.

And I don't know. I know many people have seen some of these documents that are required to be filled out, and I am sure that even lawyers who are trained don't read all of these documents but simply sign pretty much what is placed in front of them.

I'm inclined to believe that that's what it is, although there have been some people who certainly have possessed enough intelligence to know what was going on.

Last year, the Department of State, because of this massive abuse, indulged in a most drastic action. I'll be very frank to tell you, I didn't know whether the courts would sustain it, but they did. The Supreme Court of New York went along.

It got to a point where time became an element. When they would start to blockbust, using this mortgage fraud as a tool—and this is the way you bring the people in, you see. You've got to get the buyers and you make the money.

I didn't have time to do what we were doing before with the cease-and-desist procedures. It would take time to get a group to go out, these neighborhood groups, these action groups that have done such a tremendous job in helping us to do our job, because by the time we got the thousand signatures or the 2,000 signatures and so on, the area would be blockbusted completely.

So that I proceeded as soon as some excessive solicitation was reported to me. I would hold a public hearing the very next day. On the basis of what I heard and the testimony given by people, I would then issue what we call a "Nonsolicitation Area Order."

I would issue a blanket order because of the police power—for lack of a better term, I use that in the Department of State—or in inherent power to avoid a violation of the law, I placed an entire area off limits to all brokers. And, of course, we were immediately taken to court, and the Supreme Court has sustained us.

It's a very effective quick way to accomplish the desired result, because to go back to cease and desist, just the interim of time, would make completely useless any cease and desist procedure.

Now, the recent Federal Grand Jury investigation by the U.S. attorney in the Eastern District of New York, and Robert Morris and his able assistant, Assetta, which led to the indictments of these firms and persons involved in mortgage frauds, was based on previous investigations and disclosures by the New York Department of State.

And I must say, that if there ever was an excellent example of what can happen when local, State and Federal agencies cooperate, this certainly was it, and we continue to.

When this first came up, when we first learned of this mortgage fraud—it was a Federal matter. I remember, I sat down with the then U.S. Attorney Nyle, who is now a Federal judge. And then later, with Robert Morris.

We have checked in the files. We have turned all of our files over to them. We had four or five cases where we had actually taken action, and it went from there. We are still doing it.

Wherever, in New York, we run into any evidence of this sort of thing, we now turn it over to the U.S. attorney, and what it does, it relieves a little bit of the load and burden on our very small investigative staff and brings into play the powerful effective investigative procedures of the U.S. attorney.

Now, what do we do now? Where do we go from here? The New York Department of State has reached the maximum of its authority and jurisdiction. And I have problems. I can understand how people feel.

For example, we cannot stop, foreclose a broker from opening up a real estate office. And what they do, they open one up after another. We harass them. I say that to you. We check them out. We check their books. We try to find some proper way to discourage the opening up of an office, but a writ of mandamus in any court of law would compel us to allow a license to the office.

So people now picket because of their concern and fear of what might happen because of an influx of real estate brokerage operation. And people don't understand. They don't know why I don't close these offices.

There is still due process. This is still America and we are required to follow the rules. Maybe we might get some legislation in New York where we might have some authority which would prohibit, hopefully, on constitutional grounds, the opening of real estate offices within a certain distance from another. I don't know.

I understand that the Legislature of the State of New York, I understand—I know because I prepared the bill—is considering legislation—and as a matter of fact, I think the bill has passed—to extend to the Department of State jurisdiction to include all real estate operators, such as dealers and speculators, over all persons who engage in small home buying and selling activity.

If I can get discipline over the real estate dealers and speculators, then we've got a chance to bring this thing to an end in New York. Up to now, they've enjoyed almost complete immunity.

And I might say that many of these dealers, not only reflect on all of us, many of these dealers are individuals whose licenses have been revoked. They go right back into business as dealers because there is no licensure required there. A "dealer" is a person who will buy from his own account and sells, needs no license.

I understand that the Federal Housing Administration is now exercising tighter controls over its mortgage-lending activities to avert fraudulent practices by unscrupulous real estate dealers and brokers.

And many of the irregularities uncovered by the New York Department of State through its blockbusting investigations, during the past 7 years, would be removed, we respectfully submit, if the FHA personnel exerted closer scrutiny and controls over their mortgage lending procedures.

You need more supervision over individuals in the field. There ought to be something done about these appraisals, that the appraisal is made, it's sent in, and it's conclusive. There ought to be some system of checks because this is the core of it.

After all, if an appraisal comes in and it's a true appraisal, you're not going to get a \$28,000 mortgage on a house that's worth \$15,000. So the appraisal is the beginning, and then comes the rest of the ingredients of the fraud. They have instituted an acceptance of an application and a fraudulent mortgage is placed on the property in the name of the people who can't afford such a mortgage.

I think the FHA should become more consumer-oriented and protect the unsophisticated purchaser of a small home. This could be accomplished through pre- and post-purchase counseling and training programs.

We train people today in the Federal Government, excellent programs, particularly under title III, and our innovative programs for primary and secondary education. And I'm pleased to be a member of the President's council in that area.

I think it's important when we're talking about a family that might have a choice, that they struggle to achieve to get some advice from professionals before they get involved if there is an FHA or a Federal Government-controlled financing program to any extent.

Education is what's needed. Checking and education. There are merit counselling services. There are services available on a voluntary basis for young people who are to be married, and this is good.

When I think of the arm of the Federal Government—and in some areas, the State government might very well participate in this type of education and training prior to the purchase of a home in which Government financing may be involved.

Now, while the lack of decent housing for poor people, who are being exploited by the get rich-quick real estate dealers, appears to be one of the major root causes for many of our social evils, let's face it, the problem today in the United States is that we just don't have enough homes.

We've had problems in the State of New York. We've had under referendum, I think, on 3 separate years, a proposition that if it had been voted for by the people, we would have had, I think, effective programs with housing for middle-income, low-income groups. The people have turned it down.

I suppose the reason for that is that the people in the State of New York, and I think elsewhere, have reached their capacity and desire for additional taxes. And this is the problem.

I'm not going to indulge the Senator in the necessity or the need for the Federal Government to recognize the fiscal stringency of,

I think, most of the States in the United States and the need for some form of revenue-sharing.

New York State and its people have paid some \$22 billion a year under the Federal Treasury, and we get back about a billion 3, about 11 cents on the dollar. We can't make it. We just can't accomplish the programs that have to be accomplished, where we are talking about essential human needs, without some help from the United States.

I simply want to quickly say that the Governor of the State of New York, Governor Rockefeller, despite this handicap of not having had passed the housing propositions, has initiated programs which brought private funds into the construction of middle-income housing, provided capital grants for urban renewal and housing for low-income families, and devised, I think, bold and new urban development action.

And I continue here in this statement to indicate the extent to which we have attempted to do this, we have created in the State of New York a mortgage agency known as "Sonny Mae," with \$750 million in bonding authority to increase the availability of residential mortgages.

The Governor has also required State Savings Banks to invest a specified percentage of their investment portfolio in housing mortgages in New York State. And he has authorized the State Property and Liability Insurance Security Fund to invest up to 33½ percent of its funds in mortgages for one- to four-family owner-occupied buildings.

We are also excited about this new Urban Development Corporation which is mobilizing public and private resources for the construction of new housing, hopefully some 60,000 middle-income units.

May I say in closing, as far as the statement is concerned, that I think it is extremely important that none of us over-act in this matter. I think we should be mindful that the concept of FHA-insured mortgages is probably one of the most advanced social programs of its kind in the world, and we have to keep in mind that there have been literally hundreds and hundreds of thousands of successful transactions completed which gave an opportunity for people to have homes where otherwise they would not have had them.

I think what we are talking about here is the defection of people, primarily, and not the program. I think we need tighter controls, in view of what has happened, and we need some preventative measures in the form of education and training.

I want to thank you very much for giving me the opportunity to make this rather lengthy but, I honestly feel, necessary statement.

Senator HART. It works the other way. I want to thank you. It was most informative. It describes, I am sure, a problem that as you suggest exists not alone in New York, but in most other places in the country.

A long time ago I had a responsibility in Michigan that included that aspect of your assignment in New York for licensing real estate dealers and brokers.

The problems that you have undertaken and the advances you made in the cease and desist orders and so on, I am sure will benefit many places in this country. You are to be congratulated on it.

I'll make no comment on the short-shrift you give about Congress putting labeling on the package. If the FHA were to adopt a rule that would limit the mortgage company to doing business with licensed brokers only, would this be of any significant help, do you think?

Mr. LOMENZO. It would, of course, be of significant help. But I think, Senator, that it would be unfair to most of the people who do legitimately and properly and with integrity accomplish the same thing and, frankly, while I don't mean to be a lawyer here—I am a lawyer by profession—I would doubt the constitutionality of it.

We are concerned about the over-reacting aspect of it. We find, in New York, that if we take the cases where people have not blockbusted, where they have properly obtained FHA funds and so on, 99 percent have been honest and good, clean, decent people.

It would be a drastic punishment, I would suggest, sir, against those who have conducted themselves properly and who are concerned.

Senator HART. You indicated the desirability of obtaining leverage over dealers by changing the New York laws.

Mr. LOMENZO. Yes, yes.

Senator HART. If the New York law is amended to include this and if the FHA, at least in New York, attempted to limit mortgage companies to doing business only with licensed dealers assuming now that your laws extended to reach the dealer, would your answer still be the same?

Mr. LOMENZO, No, sir. I would then feel this would be appropriate. I think we need to have Government dealing with people who can be disciplined, whose registration or license can be revoked, rather than to operate by immunity.

Senator HART. You said—and I am not sure whether it was in your prepared statement or in your informal remarks—that for some of these frauds to work there had to be absolute cooperation from top to bottom. Would you elaborate on that?

Mr. LOMENZO. Let us also include the applicant. Let us say the purchaser understood what was going on. As I have indicated, in many of these cases they did not, I would say.

But start with the purchaser. He knows now that he is not going to pay anything and he knows what is going on.

You have to have, first, an individual who has a fraudulent intent purchasing the house. Second, the broker, speculator, or dealer who blockbusted in the first place and owns the property either through a front or himself or herself.

Thirdly, you have to have someone appraise the piece of property worth 15 so that it qualifies for a \$28,000 mortgage. Then you have to have a credit report, and someone in the credit agency obviously must cooperate to give false information on the credit report.

Then you have to have an individual who procures, as they do in some of these cases, false employment records either through false or fabricated income tax returns—and I might add that in most of these instances they were quite resourceful, because they would indicate it was a part-time painting job. Senator, when we checked it out, we found in all of these cases that the employment was part-time painter, the independent contractor, no Social Security records and so on and, frankly, when we checked it out, if all of the people who actually were listed as part-time painters actually were, they would have painted half of Brooklyn. [Laughter.]

So you have to have that. Then they get into the credit company, the appraisal. Now, obviously, whether it was an independent appraiser or an FHA appraiser, you had to have that cooperation.

This is what I mean, from the top to the bottom in the processing and to the extent that before the supervisor, or the individuals who make a determination, there is a complete set of documents that are regular, on their face. That's what I mean—top to bottom in the transaction.

Senator HART. But if the transaction were fraudulent wouldn't there be something in the file or the documents which would act as a red flag?

Mr. LOMENZO. No, because the procedure would go something like this: As you know, the mortgage lending companies would handle transactions; they would secure a line of credit from some bank to do it, to have the funds available to insure the mortgage, and then later it would be sold back. The bank buys paper. It has an absolute right to assume that what they read—and if it is regular on their face—is proper; otherwise, it would require an extraordinary procedure, and, that is, they would have to send out investigators to see, well, was the appraisal correct or reasonable.

Let's find out. Did the person work as a part-time painter? This is an unorthodox procedure in all of us. You take the government, in the county clerk's office; any paper that's filed, it says on its face they're required to file the paper. We do, in the Department of State, file all corporate certificates. If they are regular on their face, we are not permitted to go beyond that which is legally sufficient as a document.

So there may be, and I think at least, that there is no culpability. The defection was lower down.

Senator HART. Mr. Blum?

Mr. BLUM. Mr. Secretary, what records does the law require a broker in New York to keep about the transactions he is engaged in?

Mr. LOMENZO. Complete records. We have absolute authority where—to investigate—walking in any time and checking their records. As a matter of fact, at the moment, the Department of State is looking into more of these mortgage frauds, is checking over a thousand transactions involving 50 brokers; complete records.

Mr. BLUM. Those records would include the contract for the purchase of the house, the commission agreement, the sale agreements, all the different records involved in the transaction, including the closing statement; is that correct?

Mr. LOMENZO. Yes. We have a rule in the Department. We are required to keep complete records as a matter of necessity. They would have to have a file where the commissions were earned, the name of the broker, deposits made, and so on.

Mr. BLUM. They must have a record of the commissions they've earned?

Mr. LOMENZO. Yes.

Mr. BLUM. How far back does that record have to go?

Mr. LOMENZO. Three years, usually.

Mr. BLUM. Have you run across circumstances in your investigation of fraud where there has been no real buyer for property, where they simply invented a straw?

Mr. LOMENZO. Yes.

Mr. BLUM. Has there been a number of those instances?

Mr. LOMENZO. Oh, yes.

Mr. BLUM. Can you tell us a little bit more about how that might work?

Mr. LOMENZO. Yes. I would like permission to ask Mr. Cea, who has been directly involved, to do the specifics.

Mr. CEA. Let me say this: I know, 3, 3½ years ago, when we first started checking out mortgage frauds, in the descriptive statement given by the Secretary of State, our primary obligation was to curb blockbusting, to maintain stable integrated communities.

And we did follow a course of action as described by the Secretary of State with the blockbusting rule in 1961, the cease and desist in 1963, the Civil Rights Unit for enforcement purpose, in 1965, and in 1971, the nonsolicitation order.

So this was our main goal. But about 3½ years ago—and I think that one of the most significant statements that the Secretary has made is about this community in the late 1940's and early 1950's that went from all white to all black. And it is a well-established community, and it still is a well-established community today.

And about 3½ years ago, when we started to investigate a particular broker, we called in all of the homeowners, in this particular case that purchased the houses in a particular section. And we interviewed these homeowners. There were black homeowners, Spanish-speaking homeowners—we used an interpreter. They couldn't speak English—there were even some white homeowners.

And at this point is when it occurred to us, looking at these people, they no longer were black people to us, Spanish speaking; we saw for the first time that these were poor people. They really weren't supposed to buy a house in the first place.

And this is when we wanted to find out, when we switched our tactics in the Department of State, because prior to this, in East Flatbush, we had a complaint of blockbusting about 4 years ago on 92d, 93d, 94th Street and Brooklyn Road in Brooklyn, N.Y.

We had sent out eight investigators to interview, and they did interview 300 homeowners, ringing doorbells, in that area. Not one homeowner would give us a statement that he was being pressured, solicited, and so forth. Yet, in the period of about 2 to 3 years, the few hundred homes in that area went from all white to all black, so we knew blockbusting was going on.

Yet, in our hearings, we have due process; we must have evidence; we must have testimony, and we couldn't obtain this because the people didn't want to get involved. And it became very difficult to curb blockbusting.

But when we interviewed these homeowners—and I can still see their faces because they were poor; they were frightened because we represented authority, Government. They would never file a complaint with us. And we had to assure them that we weren't going to involve them in any difficulty, and that's when they started to talk.

And they told us what was happening, that they put no cash down. They bought these houses. After they moved in, the roof would leak, the burner didn't work. They would go back to the broker and the broker would say—they said, he would literally throw them out of the office and "Get out," he'd say, "I've spent enough money on that house and I'm not spending any more money."

And they finally couldn't maintain these houses, and they were foreclosed. So, investigating this, we spotted the name of a broker who wasn't the broker who transacted the deal, and we wanted to know who was this broker. And we asked that he be called in.

And we called him in and he related the story to us after we gave him his warning that he could be represented by counsel. He said he had nothing to hide, he was glad to tell the story. So he told us the the story that he worked for a funding company, but I said there was no funding company in these transactions, originally, I mean. "How did it all start?"

"Well," he says, "I had a side occupation." Sometimes this broker would buy a house for \$4,500, and sell it to a Spanish-speaking family for, say, \$7,500. Now, this required a purchase money mortgage, had no cash, and she would go to private lender, a person who obviously would lend the money, \$7,000 to \$7,250, but would only pay maybe \$6,000 cash. There was a bit of "vigorish" in that amount.

But the person, before he'd lend the money, would send a man out to appraise the house, and he picked this man who was an expert. He got a few dollars for it. And he spoke to the broker, and he says, "What are you doing?" he says, "You're selling these houses for \$7,500," he says. "Why don't you get an FHA appraisal?" he said. "Why don't you, for \$35, you get a preconditional commitment?"

The broker says, "What's that?" So, he explained it to him. He says, "What you do here, you're selling this house for \$9,000," he says. "Why don't you submit an application to the FHA for preconditional commitment and say that you're selling it for \$20,000, and you're asking for an 18-5 mortgage, and see what happens?"

Mr. BLUM. This was at the instigation of the employee of the funding company?

Mr. CEA. Yes; but he wasn't working for the funding company at that time. I mean, he was, but he wasn't in on that deal. So they did that and they got a commitment, preconditional commitment; we give a mortgage for 17-5, and as he said, once the broker saw that, he says, "All you need is front money to put deposits down, pay appraisal fees, other expenses."

Now, once the broker got someone to go in with him for the front money, some capital to start, he bought all the houses up in that area—every house that was up for sale—and this particular broker, working for the funding company, then assisted him in processing the applications, and he sent them in.

And the way he put it, and I quote: I asked him "Well, what did you explain to her?" "Well," he said, "after I explained this to her," he said, "once the person saw how they could get a mortgage commitment far in excess of the price that the person intended to sell," he says, "zoom, it was wide open."

And I looked at him, and I just paused for a moment, looking at him, you know. I couldn't believe what I was listening to and I told him, I said, "Don't you realize that you were selling to poor people? Do you realize that some of these people have already lost their homes?" And I said to him, "You speak Spanish, don't you?"

And he says, "Yes, I do." And I said, "Do you realize these people couldn't speak"—(interruption)—I said, "why didn't you help these people? They needed help and assistance, and instead, they lost their houses."

And that was it, that was the story he told me. And then, for the first time, we realized, we were checking, trying to get evidence of blockbusting against these brokers, the complaint of blockbusting, and we realized, then, this was a futile chase, and it was very difficult, and so forth.

We realized that these were poor people and we then developed a technique. When a person was complained of blockbusting, a broker or someone, we subpoena his files for the past year or two and we check out the files because we then determined that these people—now, some of these people are not qualified; they are poor people, and there must be an obvious fraud.

And this is what we did, starting about three and a half years ago, and it's beginning to work.

Mr. BLUM. In some of those cases, as I asked before, there was no actual purchaser and what they did was invent a person; is that correct?

Mr. CEA. In one case, we found a house where a person applied for mortgage and the deed was conveyed 30 days later to a third person. And when we called in the person who applied for the mortgage, we asked them—we showed them the deed, we showed them the bonded mortgage and asked if it was his signature, and he said, "That's my name, but that's not my signature. I never bought a house."

I said, "Did you ever go to a place in Hempstead to sign some papers where people were present?" Because they don't understand what a closing is. And he said to me, "No, I never been there." And I said, "That's your name?" And I said, "Do you know this particular broker?" And he said, "Yes."

I said, "Well, tell me what happened." Well, he went to this broker's office, and spoke to the broker about buying a house. He came back about 2 hours later, and said, no, he had changed his mind. The broker says, "Fine, forget it," tore up the paper, and he walked out. And they used his signature to apply for a mortgage loan, received the mortgage loan, and conveyed it to a third party within 30 days thereafter, subject to the mortgage loan.

Mr. LOMENZO. I want to inject here that, in that instance, we then proceeded to check out the notary public, you see, because we also license notary publics, and one thing leads to another.

I might say that just the other day I read in the newspaper where one of the individuals, apparently involved, stated, "Well, everybody else was doing it," and that's why he was.

It seemed that people indulged in a rather incongruous situation where they—I would call it "moralistic larcency," at least in their minds. If you do something long enough, it takes on this usage and custom in the trade. This is exactly what's been happening.

Mr. BLUM. Wasn't that mortgage company represented by counsel? Wasn't the buyer represented by counsel at the closing, normally?

Mr. LOMENZO. Let me say this: An inference on an inference. We can't condemn people where we are not in a position to investigate. I think it would be somewhat inequitable to bring in numbers of the legal profession unless we have some basis for it.

Mr. BLUM. We can at least guess there is a requirement or provision for counsel for the home buyer to be present at the closing and probably there are payments for counsel fees.

Mr. LOMENZO. In most instances, they would use house counsel. As you know, many times, they avoid the cost of their own personal attorneys.

Mr. BLUM. In effect, the broker picks the lawyer to represent the buyer?

Mr. LOMENZO. This happens; yes.

Mr. BLUM. There is no effective representation on behalf of the buyer?

Mr. LOMENZO. It might be unilateral; yes.

Mr. BLUM. Have you ever had, actually, circumstances where a broker has walked into your office and said, "Here is my license. I don't want a license any more, and this will get you off my back."

Mr. LOMENZO. Yes. Usually, when they hear that we are investigating, and sometimes they know about it because we call them in ultimately, they turn in their license. When they do that, we lose jurisdiction.

Mr. BLUM. Then they just go out and do it again?

Mr. LOMENZO. Not exactly because if we find sufficient evidence, we turn it over to the district attorney.

Mr. BLUM. Is one of the brokers who has done that a gentleman by the name Drago, of Drago Realty in Brooklyn?

Mr. LOMENZO. He was suspended, as Mr. Cea points out, for 6 months, and the appellate division sustained the department's ruling.

Mr. BLUM. He was reinstated?

Mr. CEA. The suspension started in November and expired in April. However, Mr. Drago did call me a few months ago when he had some difficulty in the community where he was located, by the residents. He told me his window had been broken three times, and he said that he was going to Florida, and he could make a living down there. He was not coming back.

And I said to him that that was the best news I had today.

Mr. LOMENZO. I don't know about the people in Florida, but let me say that we have been affirmed, and I think we were reversed once, but in several instances now, sir, we have been reversed, in part. The courts have cut down the—either the revocation or the previous suspension. And, of course, we were required to comply.

This was pretty much in the early stages. I believe now that the courts are cognizant of the extent of this type of evil and I doubt whether we're going to get any reversals, in part, at least as far as the punishment is concerned.

Mr. BLUM. Isn't it very difficult to keep track of the most difficult cases of fraud because the same people use a number of different names on the real estate offices and the corporations buying and selling the property?

Mr. LOMENZO. Some of the most resourceful operators are involved and it's very difficult.

Mr. BLUM. They open up under one name, and then change to another name, and then change to another name. Do you have any examples of that you might give to us that come to mind particularly?

Mr. LOMENZO. I would be reluctant to name individuals for two reasons: They are under indictment and it would be improper at this time to comment; and second, some are under investigation. But I can answer that question, generally, by saying that, yes, this does go on. The ingenuity of these people is, as I say, incredible.

Mr. BLUM. You, in effect, have been the agency that has been looking at the FHA cases to find out if there has been FHA fraud. Does FHA have people doing the same thing?

Mr. LOMENZO. I don't know.

Mr. BLUM. Is it likely, if they did, they would sort of cross paths somewhere along the line with your people?

Mr. LOMENZO. Well, let's say that our paths haven't crossed. I think probably now, obviously, from what I read, they are alerted to this sort of thing and I am sure they are apt to.

Mr. BLUM. There is presently a bill in the New York State Legislature for the regulation of mortgage funding companies. How do you feel about that bill? Do you think they should be subjected to this kind of regulation?

Mr. LOMENZO. I believe, in all of these areas, as I have indicated, there is a massive fraud condition, not only in New York, but throughout the country, that there ought to be tighter controls. I favor reasonable controls. Hopefully, this might remedy this situation.

I'm not familiar with the particular technical provisions of any proposed bill in that regard, although I have here the proposed bill to regulate dealers, and I would be delighted to submit it as an exhibit to this committee.

Senator HART. It will be received.

Mr. BLUM. When a broker deals with an individual, that individual assumes that because he is licensed by the State of New York he has been approved and that in the event of trouble there is an implied offer of Government help.

Have you heard of the expression, "having the eagle," with respect to Government approved mortgage funding companies and can you tell us what it means?

Mr. LOMENZO. Pat can.

Mr. CEA. Presently, other than lending institutions, such as banks, which to lend money for Federal-insured mortgage loans, such as FHA, or VA, are required to apply to the agency and they are given an authorization to state that they are an FHA lender, and so forth.

They call this "the eagle." Now, if you hear a person say, "I have an eagle," that means he's authorized to lend money subject to FHA or VA approval.

Mr. BLUM. Typically, the lenders who have the eagle, display some sort of Federal seal on their door?

Mr. CEA. Usually, the eagle itself. That's why they call it "the eagle."

Mr. BLUM. This certainly gives the poor people the notion that they are dealing with a federally approved, regulated, and supervised agency, I guess.

Mr. CEA. Well, we did have one buyer that, the day after closing, a flood in her basement and the sewage pipes, the excretion waste and everything else was coming out, and the way she was convinced—she wasn't represented by a lawyer—to buy the house, the salesman said to her, you know, "The Government approves this. Do you think the Government would approve this if the house wasn't okay?" And she felt that this was all right. And after, the Government approved it.

Mr. BLUM. There is an assumption here that if the Government has approved the house, the Government has approved the price, the Government is checking the whole deal.

Mr. LOMENZO. There is somewhat of a happy ending to that because I remember that. The broker involved came in there and he made restitution to fix that sewer to the cost of \$1,800.

Mr. BLUM. That lady was fortunate that she knew where to go to complain. There are probably others, because they don't speak English, don't even know where to go to get help.

Mr. LOMENZO. Yes. We have a voluntary system in New York; all of the pamphlets and publications that the Department puts out in this regard, to hopefully educate people, are displayed in the county clerk's office throughout the entire State, the villages, the towns, and the cities.

And this is the only way that we can do it. And once in awhile, the television people, and radio people, are kind enough to give us public service spots on television, and they do go on from time to time actually, and to check with us when they do.

I would like just to make one observation that I neglected to make, and that is that there is no question but that if an individual defrauds the Government, and the Government has been defrauded, then there is a civil action available to the Federal Government to recover the illegal profits and for damages.

I believe that there is a provision somewhere where treble damages might be involved. And as of this date, I have heard of not one single lawsuit that has been brought by the United States in this connection.

It would seem to me that, not only to recover the funds of the taxpayers that go into this sort of thing, it might serve as a very pronounced deterrent, because if you start taking away the fruits of this sort of thing, and they might very well pay treble damages, it might have a salutary effect on some of these individuals who are thinking about it; they might see the light.

And there ought to be, I believe, Senator, a special group to do this, to bring the civil actions and to recover the funds. That, I think, would be very effective. And frankly, I think you could almost, in some of these instances, get summary judgments by simply establishing the fraudulent papers and participation by these people.

Senator HART. I had not heard that suggestion made before. It did not occur to me that probably under that existing fraud claims statute, instances such as you have described fall rarely under it; the two results that you predict; one, it would recoup some of the money the taxpayer loses, and secondly, have a very persuasive deterrent effect.

I agree with it.

Why didn't somebody think of that around here?

Mr. LOMENZO. If two or three major lawsuits of that kind occur, I think it would have the effect we were discussing.

Senator HART. We do supposedly have a law and order administration. For Senator Hruska and Senator Fong, Mr. Nolan?

Mr. NOLAN. I have no questions.

Senator HART. Your testimony is very helpful.

I don't want to quarrel with you on revenue-sharing. I think you sort of made an oblique pitch for it, and I agree with you. I think it was rather dramatic when you said, "the citizen of New York pays

Federal taxes in a very substantial amount and gets back only 11 cents on the dollar."

We ought to remind each other of what we do in Washington when we get that dollar.

Mr. LOMENZO. Yes.

Senator HART. Some of the distribution properly is an attempt to equalize differences across the country in resources. But just think of how much greater opportunity we have to share if we could change some of the spending practices that we engage here in Washington. More than half—yes, I am satisfied—more than 50 cents of every dollar that comes in from the taxpayer, in New York and across the country for the 1972 fiscal year now is spent for the current military commitment, the interest on the national debt—80 percent of which is war-related—and veterans benefits.

When you put that together, you have more than 50 cents on every dollar spent. When, in addition to the lives that are lost, and the 300,000 wounded, the cost of the war, just in Vietnam, since 1964, will exceed \$180 billion.

And here we are. It is a war that I think almost everybody now believes lacks any justification in terms of how we are measuring it against a threat to our security. We can't even get that thing stopped.

Though I wouldn't challenge your statements that the people of New York feel they have no capacity to increase their taxes, they certainly have no desire to see that. But they ought not make book on very substantial revenue-sharing out of Washington, at least not until we reduce, substantially, the earmarking of the money out of here for war.

I make the point not to quarrel at all, but I think every time we have a chance, we have to make the point that this is where more than half of our money goes, and there is no sign that it is going to change. It is more likely to change if more and more of us understood that this is what we must do.

Mr. LOMENZO. I have five children and two are presently in college, and it gets quite expensive. And you know, I talk to the children from time to time, when they come to collect, and I try to explain to them about, you know, sharing the finances of the home.

And after I talk to them, I get a letter, and they used to say, "Best regards, dad" or "Sincerely." They always end now with the unusual, nonetheless necessary, salutation that says, "Please send money."

This is the problem throughout the United States. There are many captives and I understand. But all I'm saying is that the problem here, the root of it is, the people want homes; they need them. And frankly, they deserve them.

And the only way that we're ever going to do it is with money. And where it is going to come from is the problem, and I understand.

May I ask you, Senator, for an indulgence in a personal request? I'm a member of the National Association of Secretaries of State of the United States, and I am its immediate past president. And I'd appreciate it if you would be kind enough, if and when you get back home, to give my best regards to the distinguished secretary of state. Dick Austin, of Michigan.

Senator HART. Thank you very much; I will be delighted.

Mr. LOMENZO. He's a good man.

Senator HART. He is. Thank you very much.

(Related material follows. Testimony resumes on p. 210.)

Material Relating to the Testimony of John P. Lomenzo

EXHIBIT 1

Listing of Known New York Real Estate Dealers

MEMORANDUM

STATE OF NEW YORK — DEPARTMENT OF STATE

TO: Mr. Patrick J. Cea

DATE: March 27, 1972

FROM: James C. Austin

OFFICE:

SUBJECT: List of Known Real Estate Dealers (Unlicensed)

OFFICE:

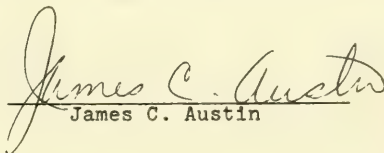
Brooklyn

- | | |
|--------------------------------|-----------------------|
| 1. Apollo Estates | 776A Nostrand Avenue |
| 2. Arcan Realty Corp. | 32 Court Street |
| 3. Bonanza | 7222 18th Avenue |
| 4. Armando Garcia | 4 Jeffrey Court |
| | Freeport |
| 5. D and V Realty | 340 Wilson Avenue |
| 6. Delta Funding Corp. | 262 Jamaica Avenue |
| 7. Abe Eisenstein | |
| 8. Family Construction | 3842 Flatlands Avenue |
| 9. Leo Jacobson | UL 4-1200 |
| 10. Nelbar Construction Corp. | 601 E. Tremont Ave |
| | Bronx |
| 11. Evelyn Polisar | 375 - 1941 |
| 12. Rawl Associates Inc. | 692 Flatbush Avenue |
| 13. Landmark Acquisitions Inc. | 77 Harbor View West & |
| | 44 Court Street |
| | Lawrence, L.I., N.Y. |
| 14. Mr. Ramos | 769-5561 |
| 15. Rocket Realty | 48 Ralph Avenue |
| 16. S and R Associates | 165 Linden Blvd. |
| 17. Salinas Enterprises Corp. | 306 Weirfield Street |
| 18. Sutter Estates | 3163 Fulton Street |
| 19. Summer Hill Realty Corp. | 271 Flatbush Avenue |

Queens

- | | |
|-------------------------------|----------------------|
| 1. S and R Associates | |
| 2. Landmark Acquisitions Inc. | 77 Harbor View West |
| | Lawrence, L.I., N.Y. |

tf


James C. Austin

Material Relating to the Testimony of John P. Lomenzo

EXHIBIT 2

FHA Circulars Listing Speculator Dominated Areas in New York

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, FEDERAL HOUSING
ADMINISTRATION—CIRCULAR LETTER No. 164, MAR. 29, 1971

OFFICE OF THE DIRECTOR

To: All approved Mortgagees.

Subject: Information on FHA procedures.

A listing of areas or neighborhoods within the jurisdiction of this office which this office considers to be dominated by speculator activity is attached. This listing is subject to additions or deletions based upon future findings of this office.

The instructions in Circular Letter No. 161 dated January 15, 1971 requiring information concerning ownership, acquisition prices, repairs and other costs in *all* areas are modified effective immediately. Only those applications in the areas or neighborhoods on the listing referred to above must be accompanied by the name and address of the owner of the property, the date the property was acquired, and the present status of the property with respect to any options to sell.

(1) If the date of purchase of the property is less than two years prior to the date of application and the owner is not the occupant, or

(2) If the owner (whether occupant or not) has optioned the property, or

(3) If this office for any pertinent reason deems such information essential on a particular application.

The total itemized cost of acquisition and an itemization of the cost of any improvements made to the property by the seller, or the option price, if applicable, must be furnished with the application. Falsification or other fraudulent information will be considered cause for prosecution.

FHA FORM 2900-1, MORTGAGEE'S APPLICATION FOR MORTGAGOR APPROVAL

The above identified form will soon be available in single sheet style in addition to the manifold package. The single sheet should be used in lieu of the more expensive manifold form whenever possible, such as with reconsideration requests, with co-mortgagors or co-signers.

LAWRENCE M. CONDON,
Assistant State Director.

Attachment.

ATTACHMENT TO CIRCULAR LETTER No. 164 MARCH 29, 1971

Brooklyn, Kings County: Coney Island, East New York, Brownsville, Bushwick, Sunset Park, Bedford-Stuyvesant, Park Slope, Red Hook, East Flatbush (East of Utica Avenue West of Kings Highway South of Empire Blvd.), and Williamsburgh.

Queens County: Corona, South Jamaica, St. Albans, Cambria Heights, Springfield Gardens, South Ozone Park, Queens Village, Arverne, and Edgemere.

Nassau County: Freeport and Roosevelt.

Suffolk County: Carleton Park Section of Central Islip, Hagerman, Bellport, East Patchogue, and Regis Park Section of Brentwood.

Bronx: South Bronx, Hunts Point, Tremont, East Tremont, Williamsbridge, Melrose, Mott Haven, Morris Heights, West Farms, Unionport, and Highbridge.

Westchester: Mt. Vernon, Yonkers, Ossining (Center City), and Peekskill (Center City).

Orange: City of Newburgh.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, FEDERAL HOUSING
ADMINISTRATION—CIRCULAR LETTER No. 168, OCT. 8, 1971

OFFICE OF THE DIRECTOR

To: All approved mortgagees.

Subject: Information on FHA procedures.

Circular Letter No. 164 dated March 29, 1971 identified areas or neighborhoods within the jurisdiction of this office which this office considers to be dominated

by speculator activity. The listing of such areas is hereby supplemented by the addition of the City of Long Beach in Nassau County, and the East Flatbush area of Brooklyn is extended west along Empire Boulevard to Flatbush Avenue, south to Avenue D, east along Avenue D and Ditmas Avenue to East 98th Street northeast to Linden Boulevard, thence west to Remsen Avenue, thence northwest to Empire Boulevard. In other respects the listing remains unchanged.

Applications in the areas or neighborhoods on the listing must be accompanied by the name and address of the owner of the property, the date the property was acquired, and the present status of the property with respect to any options to sell:

(1) If the date of purchase of the property is less than two years prior to the date of application and the owner is not the occupant, or

(2) If the owner (whether occupant or not) has optioned the property, or

(3) If this office for any pertinent reason deems such information essential on a particular application.

The total itemized cost of acquisition and an itemization of the cost of any improvements made to the property by the seller, or the option price, if applicable, must be furnished with the application. Falsification or other fraudulent information will be considered cause for prosecution.

LAWRENCE M. CONDON,
Assistant State Director.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, FEDERAL HOUSING
ADMINISTRATION—CIRCULAR LETTER No. 161, JAN. 15, 1971

OFFICE OF THE DIRECTOR

To: All approved mortgagees.

Subject: Information on FHA procedures.

Effective immediately it is mandatory that all Applications for Property Appraisal and Commitment for Mortgage Insurance, FHA Form 2800, show the name and address of the owner and the date the property was acquired, where the seller of the property is not the occupant.

If the date is less than two years prior to the date of the application, or if this office deems such information essential on any particular application, the total itemized cost of acquisition and an itemization of the cost of any improvements made to the property by such seller must be furnished with the application. Falsification or other fraudulent information will be considered cause for prosecution.

LAWRENCE M. CONDON,
Assistant State Director.

EXHIBIT 3

Material Relating to the FHA Modified Cost Appraisal

THE LIBRARY OF CONGRESS,
CONGRESSIONAL RESEARCH SERVICE,
Washington, D.C., December 23, 1971.

To: Senate Anti-Trust and Monopoly Subcommittee.

Attention: Jack Blum.

From: Economics Division.

Subject: FHA Modified Cost Appraisal Approach.

Enclosed is a copy of the FHA modified cost appraisal which is supposed to discourage speculator activity in existing homes. Although the text of the circular is not specific as to the mark-up to be allowed to speculators, the example given at the end (page 4) does indicate a 25 percent "overhead and profit" item, plus a 5 percent broker's commission, a total of 30 percent. FHA insuring office staff could safely adopt the figures used in the example and avoid any responsibility for a judgement as to an appropriate profit allowance. There would probably be a tendency to follow that course of action.

While somewhat restrictive, a 30 percent allowance probably would satisfy a speculator engaged in numerous and rapid property turnovers. At the same time the 30 percent is highly questionable when considered, for example, in light of a 10 percent builders profit and risk allowance on new multifamily projects.

HENRY B. SCHECHTER,
Senior Specialist in Housing.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT,
March 4, 1971.
 TRANSMITTAL NOTICE

This Circular cancels and supersedes Circular 4035.8. Revision has been made to eliminate the need for required identification of ownership except in areas dominated by speculator activity. The revision also provides for identification of option prices.

This change is prompted by suggestions at the Secretary's conference of field office personnel.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT,
March 4, 1971.
 CIRCULAR

Subject: I. Required identification of ownership where seller is not the owner occupant, existing properties; and II. Use of modified cost approach on existing properties in areas dominated by speculator activity.

PURPOSE: IDENTIFICATION OF OWNERSHIP

The increasing number of applications for mortgage insurance being received involving inner-city and other problem areas dominated by speculators has made it necessary to provide these additional instructions which are applicable to delineated areas as hereinafter described.

Sellers who are not owner occupants must be identified in order to disclose straw parties and speculator activity. The application Form 2800 will be revised at its next printing. In the meantime, the following instructions with respect to identification of ownership must be implemented immediately.

MODIFIED COST APPROACH

The directives in this Circular concerning the modified cost approach supplement the outstanding appraisal instructions in Section 14, Volume VII, FHA Manual and are intended to facilitate more realistic appraisals of properties located in areas of extensive speculator activity. It must be emphasized that in appraising income properties the market approach is the most reliable indicator of value and must be utilized as the principal approach. In areas where speculators constitute the principal means by which properties are marketed and FHA is the principal source of financing, this additional approach to value will help to prevent unreasonable disparities between net sellers' prices plus typical costs and FHA values with the attendant implications of excessive speculator profits. This modification of the cost approach, which will be implemented immediately in the areas affected, will provide another limit upon value to supplement the market approach. The information concerning ownership, acquisition prices, repairs and other costs should be an invaluable source of data to implement this approach.

A speculator is one whose motive in purchasing a property is to resell as soon as possible at a profit. He may or may not make repairs and may purchase on a contract for deed or he may buy outright.

When speculators predominate in the buying, repairing and selling of older existing dwellings, there frequently is inadequate market data available for market comparison purposes that does not involve, or is unaffected by, such speculative transactions. In such neighborhoods, this modified cost approach is mandatory.

I. INSTRUCTIONS FOR THE IDENTIFICATION OF OWNERSHIP

A. Effective immediately, field offices will provide mortgagees with a list of delineated areas or neighborhoods which are dominated by speculator activity. The mortgagees will be advised that applications in such areas must be accompanied by the name and address of the owner of the property, the date the property was acquired and the present status of the property with respect to any options to sell.

- (1) If the date of purchase of the property is less than two years prior to the date of application and the owner is not the occupant, or
- (2) If the owner (whether occupant or not) has optioned the property, or
- (3) If the field office for any pertinent reason deems such information essential on a particular application,

The total itemized cost of acquisition and an itemization of the cost of any improvements made to the property by the seller, or the option price, if applicable, must be furnished with the application. Falsification or other fraudulent information will be considered cause for prosecution.

B. Valuation Clerks must be instructed to carefully review all applications in delineated areas during initial review prior to assignment to ascertain the need for the required information in A. above, and if not in the file, the application will be returned to the mortgagee as a fee earned reject. The information provided will be transmitted to the processing appraiser together with the application.

C. The director of each field office will issue a letter to all mortgagees in his jurisdiction reciting the requirements in Paragraph A. above.

II. MODIFIED COST APPROACH

A. *Delineation of Areas and Benchmarks.*—The neighborhoods in which this modified cost approach is to be used must be designated and delineated by the Chief Appraiser in each field office and will be limited to those areas dominated by speculator activity.

1. The first step in this approach is to collect sales data of net prices received by sellers selling to speculators (reflecting the As Is Value (before repairs)) using the market approach. Benchmark appraisals will be established in accordance with Paragraph 71418.3 to justify the appraiser's As Is Value. The benchmark comparison must be made on Form 2019 for each type of property typical in the locality. The data can be collected from the usual sources of market data including courthouse records, mortgagees, contractors, brokers and speculators dealing in this kind of property.

The benchmarks will be coded for identification purposes and the code number identified on the 2800 used in appraising the subject.

B. *Data.*—The next step is to collect data relating to the following four items described below. Verification and comparison of substantial amounts of this data is necessary to assure its validity. This data will be assembled by the office and provided the fee and staff appraisers working in the areas designated. It must be updated as needed to assure its reliability.

1. Expenses incurred in connection with the As Is Purchase from the original owner (recording charges, transfer taxes and any other expenses of purchase).

2. Interim Financing Expense (interest on borrowed money necessary to carry the property until resale) expressed as a percentage which will be applied to the As Is Value.

3. Expenses incurred in connection with holding the property awaiting sale and closing (such as taxes, insurance, water and heating costs, grass-cutting, etc.) This may or may not be an element of expense, particularly if in the typical transaction the sale is consummated early or the speculator rents the property during the sale period.

4. Typical broker's commission charged (percentage) on properties of this type.

C. *Repairs.*—The cost of repairs proposed or required to make the subject property acceptable must be estimated in the usual manner.

D. *Method.*—1. Determine the As Is Value from the benchmarks provided. Enter the As Is Value in Box 31 on the 2800-3 (see example). The Benchmark 2019 utilized will be identified by code number next to the As Is Value.

2. Enter expense of As Is Purchase (B-1 above).

3. Calculate the interim financing expense (B-2 above).

4. Add holding costs (if any) (B-3).

5. Add repairs proposed or required to bring the subject property up to a condition acceptable to HUD and the market (from Box 33).

6. Next, total the As Is Value, the expense of As Is Purchase, the interim mortgage expense and the repairs.

7. Multiply this total by a reasonable overhead and profit allowance. As reasonable profit is one which is required in order to attract legitimate enterprises to engage in the purchase, repair or rehabilitation, and resale of older properties in the locality. The profit allowance must be such that it will discourage the "speculator" or "suede shoe" operator. The purpose is to exclude from FHA insured mortgages the possibility of exorbitant profits at the purchaser's expense.

8. Compute the Broker's commission on the sum of the above.

9. The result is the modified replacement cost.

This total is then entered in Block 32, Total Replacement Cost. This amount is an upper limit of value for the property and will also be entered in Box 36, "Appraisal Summary" as "Cost".

Example of modified cost approach

(1) As is value.....	\$6, 200
(2) Expense of as is purchase.....	75
(3) Interim financing expense (9%, 3 months on \$6,200).....	140
(4) Holding costs.....	(None)
(5) Repairs.....	1, 800
(6) Total.....	8, 215
(7) Overhead and profit 125% \times \$8,215.....	10, 268
(8) Broker's commission (5%) = $(\$10,268 \div 95\% = \$10,808 - \$10,268)$	540
(9) Modified replacement cost.....	10, 808

Next, we will introduce Mr. John H. Payne, president of the Empire National Bank.

(Whereupon, the witness was sworn by the chairman.)

**STATEMENT OF JOHN H. PAYNE, JR., PRESIDENT AND CHIEF
EXECUTIVE OFFICER, EMPIRE NATIONAL BANK**

Mr. PAYNE. I would like to introduce Frank Caruso and Mr. Nicolls. I respectfully request you administer the oath so they may participate in this testimony.

(Whereupon, Mr. Caruso and Mr. Nicolls were sworn by the chairman.)

Senator HART. Thank you. You may begin.

I would anticipate we can receive your prepared testimony, then we can break for lunch for about an hour.

Mr. PAYNE. Thank you.

We sincerely appreciate the opportunity, Senator, of being here today and participating in this testimony. I thought it would be appropriate for us to identify ourselves as a bank and to tell you how we got where we are.

Empire National Bank was formed in March of 1970 by the merger of the Rockland National Bank into County National Bank under the name of Empire.

At the end of the year, 1971, we had total assets of about \$463 million. We operate 42 offices in the counties of Rockland, Orange, Sullivan, and Dutchess. It's in an area extending from the New Jersey line up the Hudson River to Hyde Park, north of Poughkeepsie, and west across Rockland and Orange Counties to Port Jervis on the Pennsylvania line.

We are the largest independent bank in New York State north of the New York City line, and for what it is worth, the 185th largest bank in the country.

Now, how did we get into the mortgage business? Seeking opportunities to better serve the mortgage demands of our own trade area, which is one of the most vital housing building areas in New York State and as well as to broaden the base of our bank's earnings, we entered into a contract with a company known as Arcs Industries, Inc., in August of 1971—whereby the bank agreed to purchase all of the outstanding shares of the common stock of Capital Ventures, Inc.

In acquiring the stock of Capital Ventures, the bank would also be acquiring all of the wholly owned subsidiaries; namely, Delta Capital Corp., Institutional Brokerage Corp., Lombard Capital, Repo Realty, and a name which has appeared in newspaper stories recently, United Institutional Servicing Corp.

Back in 1963, when Rockland National Bank was active in the building area, in the very rapidly growing county of Rockland, it began doing business with the predecessor company of United Institutional Servicing Corp.

The Rockland made available a warehouse line of a million dollars to the predecessor UISC, and in addition, issued commitments to builders in that area who were known to the bank, and were customers of UISC for construction of homes in the bank's then trade area, a credit line in the amount of \$1½ million, and subsequently increased to \$2½ million.

In this entire period, from 1963 to 1971, Rockland National (and later Empire National's) business with the United Institutional Servicing Corporation was conducted in an entirely satisfactory manner.

During this time, there were no foreclosures, no delinquency problems, no repurchases, no evidence of any fraudulent or erroneous transactions. It is a conservative estimate, during the 8-year period, that the bank made available to UISC for loans to its customers, somewhat more than \$45 million.

Naturally and understandably, this satisfactory experience with UISC and its predecessors had a considerable influence in our evaluation of the Capital Ventures acquisition.

Before the acquisition was completed, we received the necessary permission from the Comptroller of the Currency in Washington to acquire the company as a wholly owned subsidiary, and we also engaged the firm of Peat, Marwick, Mitchell & Co., our bank's auditors, to make a complete audit of the books of Capital Ventures, Inc., and its subsidiaries. Their audit revealed no irregularity in the records of the company.

In addition, Empire's contract to purchase the stock of Capital Ventures contained Arcs Industries representations, including the expressed warranty that "the operations of their respective businesses does not violate any law, ordinance, rule, regulation or decree of any governmental authority which is material to the operation of their business," namely the business of all of the subsidiaries, including United Institutional Servicing Corp.

On the basis of what we considered to be a satisfactory evaluation of the Capital Ventures purchases, and with the approval of the bank's board of directors, we concluded that acquisition in August 30 of 1971.

Immediately following our determination to acquire Capital Ventures and its subsidiaries, I assigned a most experienced officer in this field, a man who has been fully cognizant of the details of the acquisition, to be liaison officer and to coordinate operations of the mortgage companies with the bank.

This gentleman is sitting on my right, Mr. Frank J. Caruso. He is vice president of the bank and has a long record of experience in the mortgage field, and had, among other responsibilities over the years with the bank, that of managing the bank's relationship with UISC since 1963.

His original assignment with Capital Ventures and its subsidiaries included becoming thoroughly familiar with all of the policies and the practices of the companies and making a continuing evaluation of the effectiveness of the overall operation.

We were aware that UISC had been suspended as a seller-servicer by Fannie Mae and Ginny Mae, this suspension arising out of servicing problems in a portfolio of roughly \$114 million in loans, which servicing had been sold prior to our acquisition.

A large percentage of this portfolio was FHA-VA mortgage loans which were originated in the inner core areas of Kings County, Bronx County and Queens County in the city of New York. While the company had been suspended by Fannie Mae and Ginny Mae, it continued to be an approved FHA and VA mortgagee.

One of Mr. Caruso's early recommendations was that the senior management of the bank schedule a conference with the Regional Officers of Fannie Mae, and this was accomplished in January, 1971 at which time Mr. Caruso and Mr. Edward J. Brown, an executive vice president of Empire National Bank accompanied me to Philadelphia.

We conferred with Messrs. Kenneth Duncan, regional vice president of Fannie Mae, and Oliver J. McCarron, assistant regional vice president, and as a result of this conference, we received assurances that Empire National Bank and Embanque Capital Corp. (formerly Delta Capital Corp.), would be approved as both FNMA and GNMA seller-servicer.

These approvals were necessary to maintain the secondary mortgage market operations fundamental to the successful and profitable operation of the mortgage companies. During the course of the meeting, I gave the officials of Fannie Mae assurance that Empire National Bank was determined to see the mortgage companies operate on a quality level. Immediately following that conference, I issued the following communications, which are attached to this testimony. I would like to quote two short paragraphs of my letter to Mr. Duncan as follows:

The UISC operation is being carefully reviewed with the objectives discussed at our meeting on the 14th very much in mind. I have issued specific instructions that quality levels must be maintained and am insisting that quality control criteria be established and faithfully followed.

I am certain that the steps we have already taken and those that we will make in the months to come will establish the mortgage companies of Empire National Bank as quality producers with which you and your associates at Fannie Mae may deal with confidence.

At the same time, I issued a memorandum to Mr. Edwin Katz, the then chairman of the board of Capital Ventures, reciting to him the fact that quality must be maintained at a high level. I'd like to read this paragraph:

As you are well aware, there is a continuing criticism of the quality of portions of the mortgage packages merchandised by our companies in the past. We must be certain that Capital Ventures, Inc., and its subsidiaries are not subjected to any new criticism of this type.

In his evaluation of the mortgage company's operations, Mr. Caruso reported to me that one of the major problems influencing the control of the quality of mortgages was the fact that there were no internal procedures for approval of mortgage loans accepted for processing.

In other words, any mortgage loan—and Secretary Lomenzo referred to this in his testimony—any mortgage on which a firm commitment was issued by the FHA or VA was automatically closed without any further internal investigation.

Because these loans were Government insured or guaranteed, it was apparently assumed that there would be no substantial loss to the company irrespective of whatever loss there might be to the Government by virtue of its insurance or guarantee.

To those of us who have been used to doing a commercial banking business, this was a novel procedure because we don't operate on a nonapproval or nonreview practice. What the mortgage company was doing was not consistent with what we've been accustomed to doing in our bank relative to all types of loans, including those which carry a Government guarantee; for instance, the Small Business Administration loan applications which we processed over the years were subject to the same close scrutiny of our lending officers as any nonguarantee credit.

The functions of the marketplace in the mortgage banking area are quite different from those of commercial banking. While we recognized this before we acquired Capital Ventures and its subsidiaries, we were not prepared to accept some of the practices those companies followed, practices which were apparently common to the mortgage banking industry.

As we have altered those practices, there has been a very definite effect upon the volume of cases submitted to us by brokers, a matter which I will comment on later.

Mr. Caruso also reported that there were questions concerning possible conflicts of interest which arose from the investment of personal funds of officers of the corporation and members of their families in interim loans to dealers in real estate, pending the completion of necessary repairs to obtain a firm commitment from the proper governmental agency.

Other observations that Mr. Caruso reported included the fact that all inspections were handled by a single individual in the employ of UISC; that certain employees of the corporation were accepting gratuities from the brokers, purchasers, and/or the purchasers' attorneys at the time of the closings; that loans originated through certain brokers showed an abnormal delinquency ratio.

As a result of these reports, I directed the following actions be taken: In the area of origination, a working loan committee was established. This committee meets on a regular weekly basis and approves or declines each individual mortgage loan.

Since its establishment, the committee has received an average of 45 applications each week, and of these, an average of seven were rejected for a variety of reasons which included the projected inability of the purchaser to meet his financial obligations under the mortgage.

Now, while the figures 45 and seven in themselves may not seem astronomical, when you start to multiply them by the fact that the average mortgage is about \$25,000, and over the course of a month, and a year, this adds up to quite a bit of money.

We must assume that previous to the establishment of our loan committee, no rejections of these mortgages would have occurred. And we also must assume that once this approval procedure became known in the trade, and also was the result of the quality demands laid down by our bank, that fewer questionable cases were submitted to the mortgage company by brokers. They just went someplace else.

I also directed new procedures with regard to verification of bank deposits and employment of applicants were instituted. In addition to attaching the envelope in which the verification of deposits and of employment were mailed to us, we started a reverification program of employment by telephone. These procedures were established to minimize the possibility of falsification of the applicant's bank deposit or employment record.

We had one interesting case which I'll cite for you. We received an application from a man we'll call John Doe, who stated that he was employed by the Internal Revenue Service at an annual salary of \$16,500, and in fact, as we went through our verification procedure, the paperwork showed that indeed there was a John Doe working for the IRS in New York receiving \$16,500 a year.

However, in our followup telephone verification—just that simple step—the fact was disclosed that two John Doe's were employed by IRS, one of whom was in fact earning \$16,500. The other, our John Doe, was earning \$6,000 per annum. The loan was declined.

I also insisted that new inspection procedures be established. We have recently signed a contract, which was effective the 1st of May, with a division of Retailers Credit Corp.

The terms of this contract provide, among other things, that on all arrearage inspections of properties a different individual will inspect the property. In other words, what we are trying to accomplish is to make certain that the same inspector is not repeatedly inspecting the same property.

Also, following my instructions, a very strong memorandum to all staff members of Captial Ventures, Inc., and its subsidiaries was issued forbidding their acceptance of gratuities and informing them that they would be subject to immediate termination if there be any instance of such practices. That action was taken during the first week in April.

In the matter of interim financing, on Monday, April 10, pursuant to my directive to UISC, all interim loan financing operations were terminated. This negates the possibility of any conflict of interest arising out of the company's processing an application for a firm commitment from FHA or VA.

We also have discontinued doing business with 10 or more brokers who historically have submitted loans of a quality less than our established standards. This move was made after a careful analysis of all brokers who had done business with our company over the past 18 months with Mr. Patrick Cea of the New York Department of State, who just appeared before you. It was also at this time that we instituted our policy of dealing only with licensed brokers, and we have eliminated all dealer business.

We issued instructions to the internal auditor of the Empire National Bank to consult with Peat, Marwick & Mitchell, our external auditors, with the objective of establishing an effective internal audit control program for the mortgage company, not only to assure the authenticity of financial records, but also to audit procedures establishing the validity of day-to-day operations. And I have before me a 15-page outline of the audit program we will put into effect immediately.

On March 14, I directed one of our senior vice presidents, Mr. John Nicoll, sitting on my left, a former administrative assistant to the

Comptroller of the Currency, and a former trial attorney in the Criminal Division of the Department of Justice, to conduct his personal evaluation of the mortgage company procedures.

My direction to Mr. Nicoll to conduct this evaluation arose, in part, from the fact that the financial records of certain individuals who were officers or employees of UISC were subpoenaed by this committee.

Mr. Nicoll's report substantiated the objectives and suggestions made by Mr. Caruso, but did not produce any other information.

As a result of the observations and recommendations of Mr. Caruso and Mr. Nicoll, we undertook a complete restructuring of the Capital Ventures, Inc., and its subsidiaries. This was effected at the annual shareholder's meeting on April 11, 1972, and the board of directors now include, in addition to Mr. Caruso and myself, Mr. James Bloor, chairman of the board of the Central Savings Bank, a very well-known institution in New York City; Mr. Arthur W. Schmidt, Jr., a corporate vice president of Consolidated Food Co. in Chicago, and a director of Empire; and Mr. Leonard Kohl, president of Kohl Associates, a large homebuilding organization in the Rockland County-Orange County area.

We think we have some good expertise on that Board. The officers of the corporation include, in addition to myself as chairman of the board, Mr. Frank Caruso as our president and chief executive officer.

This restructured officer alinement has strengthened empire National Bank's control over the practices and policies of its mortgage subsidiaries.

This restructuring has eliminated several former officers and directors whose contracts of employment expire May 31, 1972, and will not be renewed. Mr. Katz, who was formerly chairman of the board, will be serving as a consultant to Mr. Caruso and myself.

Accordingly, within some 90 days after we had acquired the mortgage companies, we had installed many effective controls to assure a quality of operation consistent with the image and identification of Empire National Bank; and, within 7 months after acquisition, we have completely restructured the officer staff and board of directors.

The steps we have taken, particularly in the areas of the quality of our product, have already achieved results. Since its activation, Empbanque Capital Corp. has adhered to all of the underwriting standards mentioned previously, and at this date, the results have been more than gratifying.

Of approximately a thousand loans being serviced by Empbanque for institutional investors, Fannie Mae, and Gennie Mae, less than 3 percent are delinquent after the first 10 days of the month; and by the 20th of the month, the delinquency rate is down to just over 1 percent. This, to us, gentlemen, is firm evidence of the value of proper quality controls.

In our business, in the mortgage business, as it is in any other, a serious interruption in the flow of raw materials has a detrimental effect upon production and sales and on profit.

Our raw materials come from real estate brokers, whose primary income comes from commissions on sales of real estate, sales which are dependent on mortgage financing being available.

The temptation of the mortgage company to accept any and all cases the broker produces is great. We recognize the validity of the real estate brokers' reply to tougher underwriting standards, and I quote,

"So, OK, I'll go to another company. They'll accept anything I bring in."

And as the word spreads among the brokers that we are tightening up, and as the word becomes exaggerated in its second and third repetition, even the high-quality producer becomes concerned about getting his mortgages approved and seeks alternate companies to work with.

So it is really not enough for individual mortgage companies, such as our own, to tighten procedures and quality controls; the mortgage banking industry needs legislated and regulated standards, much as the banks of the country have through their banking regulatory authorities.

Such regulations, in combination with quality standards applied without favor by mortgage guarantee and mortgage insurance agencies, will enable us all to compete on an even basis.

And, as most of us in the mortgage banking business do business in many States, I believe that uniformity of these regulations and standards among all of the States is vital.

Now, when I talk about quality control, I don't want to have it interpreted to mean that we, or other mortgage bankers, are not interested in nor are sensitive to the plight of those who desire and require adequate housing of those who feel deeply the desire we all share, to own our own home.

We recognize the need for some form of guarantee or insurance in order that home purchase terms may be available on an almost a hundred-percent financing basis, and on the long-term payout not otherwise offered in the market.

However, quality control also means keeping a man from drowning himself in debt service, keeping him from being saddled with payments he cannot meet, and saving him and the Government insurance agency from certain foreclosure, and most often from certain dollar losses.

I would like to commend Secretary Lomenzo's suggestion on counseling in this area. In the area of home acquisition, a bank, such as ours, is very actively engaged in this type of counseling through every one of our 42 officer managers who is a consultant at some time to a family who is talking about acquiring a house and how much of a house they can afford, and how much their payments are going to be and whether they can do it.

This type of counseling, we do through the bank. But through the mortgage company, we have the product before us before any type of that counseling can be done.

As the social pressures of various programs have mounted, it is easy for certain people to point their fingers at the mortgage company who refuses to accept the mortgage application which is loaded with danger signals, as being a company which is discriminating against people who need housing the most.

However, none of us do any service to an individual or to his family—again as Secretary Lomenzo has said—if we let him assume a mortgage whose total dollar amount and monthly payments are something he cannot cope with. The results of that are tragic.

On the other hand, if we bow to the social pressures and allow these properties to be mortgaged, we are then subject to—and prop-

erly so—pronounced criticism when the delinquency ratios become too high and the foreclosure rates astronomical. It is almost a case of being damned if you do and damned if you don't.

Have no doubt that we at Empire National Bank are not committed to the mortgage banking business and its successful operation. We are committed to it. We are convinced that the mortgage banking business is one in which a commercial bank can operate to the benefit of the public and its shareholders.

The housing needs of this country have never been greater. The public deserves the quality service we intend to render, and the Government efforts to provide additional assistance to those millions of families urgently needing proper housing deserves the assurance that a quality conscious mortgage banking company can contribute.

That, Mr. Chairman, is the end of my prepared statement, and we'll be available to answer any questions at any time you please.

Senator HART. That's a much briefer statement than I anticipated. Maybe we can avoid the need for a recess and just continue. I'm sure that will help the schedules of all of us.

As you got to about the next to the last page of your statement, I leaned over to Mr. O'Leary, our staff director—this advertises the fact that I'm not a commercial banker or a mortgager—I said, "Why is it the commercial bank, in handling Government insured paper, hasn't gotten into some of the careless practices that you and others have described in the mortgage banker game?"

He explained, except in rare cases, commercial banks couldn't have that kind of paper. I then said—the reason I refer to this—while I was saying this to him, you were then getting into this section of your testimony where you are "damned if you do and damned if you don't."

You put it much more effectively than I. I was saying, if—"the problem is that the people whom we are trying to house under these programs, that are not attractive to the commercial banks, are people who have very little education, in many cases, and can be easily over-loaned.

"How we can protect them from being over-loaned is through very rigid standards, then we are not going to house very many. On the other hand, in order to achieve the goal on housing, we push you people. We are then going to produce the many tragic examples that we are hearing about."

As I finished that, I looked up and you were in the business of describing much better things, that is true. Isn't that the dilemma we're in here?

Mr. PAYNE. This is very true. We are determined and convinced that you can go into a so-called disadvantaged market, the inner core areas, and you can produce good mortgage paper, you can help people acquire their homes and pay for them by being careful about not getting them in over their heads, which is the thing we have talked about previously.

And unfortunately, the tragic areas always are attractive to the entrepreneur fly-by-night who wants to make a fast buck. This is the place to go and where he can make it most easily because of the ignorance and fear that exists there.

Now, one of the reasons for acquiring a mortgage banking operation is to try to mobilize credit, and to make credit available (not only FHA

credit but we hope the conventional mortgage type) by being able to package a good group of mortgages, let's say, from Rockland County, or Dutchess County, or from areas around New York City, and use dollars that have been accumulated by savings banks or, let's say, in Syracuse, New York, or Watertown, where they produce more dollars than they have mortgages available to invest in.

And we thought, by doing this, we can get those dollars down to try to help people in this area acquire homes. I recognize the fact that we can only do this if we have a good reputation of producing a quality product. This is what we are determined to do.

In our commercial bank, we have about one-third of our total loan portfolio—or \$90 million in mortgage loans. Many of those loans—some of which we have had some very unfortunate experiences with—have been in some inner core areas, and some of them have been very, very good.

But subject to the normal risks of family money problems, these should be good loans; unfortunately, today there are some very fine credit risks who have been aerospace engineers, who are today having trouble meeting their mortgage payment, so that this can happen to any of us.

But I am convinced that the disadvantaged borrower does not have to necessarily be a bad credit in himself if he is helped to become a good credit.

Senator HART. I hope you are right. It is encouraging that there are men in the banking field who take the approach you do.

Mr. PAYNE. I might add, parenthetically, Senator, and I said this, we intend to be in the mortgage business the way I have said we will be in it irrespective of our competition or what liberties they take, and if we go out of the mortgage banking business that way, we'll go out of it. But we're not going to change our practices and policies to conform with the general rule of the road just to stay alive. It isn't worth it.

Senator HART. I think you cited in your prepared statement the problem that you run into by getting the reputation of seeking good paper, and rejecting short traps, and how this has an adverse effect on your volume.

Then responsibility becomes that of publications in the regulatory agents, through Government, to improve the performance and standards of your competition or get rid of it, eliminate it.

Mr. PAYNE. I don't want to necessarily shoot down the competition because competition is good for us all, I guess, but unethical competition isn't. As I said here, and I sincerely believe this, the mortgage banking business needs to have some intelligent program of regulation to protect the people of this country, just as the commercial banking.

The State and national banking departments have set certain requirements for the people who are allowed to go into this business, both on the basis of their own moral backgrounds and financial standards. We have certain capital requirements. We have certain limitations of how, when, and where we can do business. And we are examined, not only to make sure that our financial records are all right, but also that we are following the ethical rules and regulations laid down by the banking supervisory authorities.

And I submit, Mr. Chairman, that we need this in the mortgage banking business, too. I'm not prepared to be an expert in how to set up the proper supervision of the mortgage banking business, particularly only having been in it about 9 months, but I can see the great similarity between that and commercial banking, and certainly can see some of the things that need desperately to be done, if we are going to protect the buyer, the public, and the Government, and the taxpayer.

Senator HART. And as the Secretary reminded us in his testimony, many, many, people in this country assume that the mortgage banking activity must be under regulatory control and direction.

There is an assumption this is true, therefore, a relaxation in the guard which the citizen puts up would likely follow.

Mr. PAYNE. As the Secretary points out, it would be interesting to make a survey among the higher salaried, better educated, better informed section of the population and ask them what they feel that this mortgage guarantee or the FHA, or sign of the eagle means to them. And I'm afraid you get probably the same feeling expressed among them as you do among the lower disadvantaged group.

The would say, "Well, that must be a Government program."

Senator HART. I'm sure that would be the case.

Mr. PAYNE. If I didn't know better, I might assume the same thing.

Senator HART. Certainly.

Well, now, we want to get into our record testimony that will give the readers of the record, and those of us who are on the committee, who need the education, too, an understanding of how a mortgage company works.

The staff has developed a number of questions to produce that kind of understandable explanation.

I will ask Mr. O'Leary to undertake that kind of record development.

Before I do that, lest I forget, as long as we have Mr. Nicoll here, you reminded us that there is an element of protecting the taxpayer here.

Mr. Nicoll, you heard the Secretary suggest that under existing Federal Fraud Claims Law, it might be possible to proceed against the fast buck artist that might turn up in some channel of this mortgage purchase arrangement. What is your reaction?

Mr. NICOLL. Off the top of my head, sir, I would think that it is more than possible to proceed against the individual. I am confident there must be adequate civil fraud provisions available at this time to cope with this problem.

Senator HART. Yes, it would if the word got out.

Mr. NICOLL. It would have a very salutary effect. Yes, sir.

Senator HART. Mr. O'Leary?

Mr. O'LEARY. Mr. Chairman, with your permission, since you have a number of questions to ask periodically, I would like to turn over the questions to Mr. Blum, who will alternate back and forth.

Senator HART. All right.

Mr. O'LEARY. Mr. Payne, if, during the course of the questioning, a question might call for a response which is more in the area of Mr. Caruso and Mr. Nicoll, please feel free to have them respond instead of yourself, if you feel it's more appropriate.

Mr. PAYNE. I would deem it very appropriate.

Mr. O'LEARY. On page 8, you state—you refer to real estate brokers. I gather from that, the broker decides where the home buyer would get his mortgage. You therefore direct your sales effort there; is that correct?

Mr. PAYNE. Yes. I would like this line of questioning to go to Mr. Caruso. As the chief executive officer of the company, he is more involved with the day-to-day details. He knows far more about it than I do.

I'd like Mr. Caruso to respond to this series of questions.

Mr. O'LEARY. Fine.

Mr. CARUSO. Basically, this is true. The broker originates the application. He is the one who is selling the house, and he controls the purchase up to the point of the eventual conveyance of title. So that, in many situations, he would control where the financing goes.

Mr. O'LEARY. I take it, then, you maintain a staff of salesmen who solicit brokers.

Mr. CARUSO. Yes; we do.

Mr. O'LEARY. Are the salesmen assigned different geographic territories?

Mr. CARUSO. Yes; they are.

Mr. O'LEARY. Are your salesmen paid on a salary or a commission basis?

Mr. CARUSO. It's primarily on a commission basis, based on a per case basis. They are also entitled to a draw against future commissions.

Mr. O'LEARY. How much? Can you give us an idea of how much a top salesman in a mortgage company normally earns in a year?

Mr. CARUSO. Based upon the experience we have had for the past 9 months, I really couldn't give you a figure that could have been possible before, but I would say somewhere in the neighborhood of \$20,000 to \$30,000 a year.

Mr. O'LEARY. Now, with respect to top salesmen in the different mortgage companies competing with one another, some salesmen are hired away from other companies as a hotshot?

Mr. CARUSO. Most of them.

Mr. O'LEARY. If I were a real estate broker, typically, what reason would one of your salesmen give me for trying to convince me to deal United rather than Eastern or Inter-Island, or one of the others?

Mr. CARUSO. Primarily, the thing we have to sell is the service. If we can process the application, that they have originated get them approved, and we handle it in a manner they like and they are reasonably assured the sale would go through, their commission will eventually come through.

Mr. O'LEARY. Does the mortgage company salesman handle the preparation of all of the forms, say, starting with the FHA form 2900, normally?

Mr. CARUSO. No. Again, this is something that I can't honestly answer because I don't actually know whether or not it is so. I would say, a good part of this information is developed by the broker and the information submitted with the help of the solicitor. The solicitor usually is most familiar with the forms, although, in many cases, the broker is more familiar with the forms than the solicitor.

Mr. O'LEARY. Let's say the broker fills out the form, somebody—or the broker, in conjunction with the mortgage company salesman—fills out the form 2900, which, among other things, indicates where I work, how much money I have, how much money I have in the bank, is it the mortgage company's salesman—for the mortgage company, is it his responsibility to get the employment verification, to refer to some credit bureau for a check on the man's credit to find out if he has that much money in the bank that he says he has?

Can you give us some idea how that works?

Mr. CARUSO. Speaking for our own company, this is handled by our processing department. They take the "raw" form 2900, prepare the verifications of deposit and employment, send them out to the employers, and banks of deposit receive them back, order the credit report, put the package together, so to speak, so it can be sent to the FHA or VA for approval.

Mr. O'LEARY. After the package has been put together, it goes to the FHA?

Mr. CARUSO. That's right.

If I may interject, prior to our ordering any such credit reports or verifying deposits or anything like this, our loan committee, in addition to its approval and declination procedure, reviews all of the 2900's submitted for the prior week.

If we see any situation where we feel there may or may not be an actual situation, we would then take action at that time without going through the verification process.

Mr. O'Leary. Am I correct in assuming that those procedures are different than procedures that existed at the time you took over?

Mr. CARUSO. Absolutely no question about it. There were no procedures at that time.

Mr. O'LEARY. Does United or Inter-Island maintain some regular liaison with the HUD office in Hempstead?

Mr. CARUSO. I would not say "liaison". Our Processing Office is located in the same building as the FHA in Hempstead, and there are visiting days, I believe Tuesdays and Thursdays, on which you could go up.

If a particular case has been rejected, or held in the pending stage for a particular reason, you can discuss it with the people in HUD or FHA. There is no one present today who is named as dealing with FHA.

Mr. O'LEARY. Can you give us an idea of what the normal time lag is between when FHA—and I'm speaking now—would receive your package and when it would be approved or disapproved by the FHA?

Mr. CARUSO. I can give you my own idea; whether it's accurate or not, I can't—

Mr. O'LEARY. If, later, you would like to correct it for the record, we would be glad to receive that.

Mr. CARUSO. Normally, the application would be submitted by the broker through the solicitor. As I say, our first step would be to review the 2900. This could possibly hold it up to 7 days, because our normal meetings are held on Tuesday. If an application is accepted by the solicitor on Wednesday, it isn't until the following Tuesday that we authorize it to be further processed. Once it is authorized to be

processed further, it is sent to our processing department and they prepare the necessary verifications they order the credit report, and they take all of the steps necessary to complete the package.

This may take anywhere from 7 to 10 additional days. Now, depending upon the area of employment that the individual is concerned with, the credit bureau, on occasion, has problems verifying the information submitted.

Once this is done, we again review the case to be sure that the specific set of facts that have been presented to us with the 2900 are in fact so. As long as they agree we would then approve the processing loan, and it would then be submitted to the FHA or VA for approval.

I would say that it would probably take an additional 5 to 7 days for FHA to give a firm commitment on the case.

Mr. O'LEARY. Fine. Thank you.

Mr. CARUSO, are you familiar with the terms "expediter" and "walking a mortgage through" as they apply to the New York FHA office?

Mr. CARUSO. I've heard the terms, yes.

Mr. O'LEARY. Can you give us some idea?

Mr. CARUSO. I can give you, again, what I have understood the term to mean. Now, I know of no specific situations at this time. I can tell you that it does not mean anything with our company.

But my understanding is that an "expediter," shall we say, had a friend at FHA, and was able to accomplish certain things that he ordinarily would not have been able to accomplish.

I would think that "walking through" would mean the same thing.

Mr. O'LEARY. These are terms, I take it, that are familiar in the trade?

Mr. CARUSO. I would say so.

Mr. O'LEARY. Can you give us some idea why mortgage companies are able to get better service or more rapid processing for their loans from FHA than banks?

Mr. CARUSO. Well, based upon my observations, mortgage banking companies are primarily involved with the origination of FHA-VA paper so to speak. The personnel that they employ, and the methods that they use, are much more sophisticated than the average bank. And I'll put it this way if I can: The average commercial bank, savings and loan or savings bank, in the State of New York, if not throughout the country, does not have the people who are familiar with red tape, the day-to-day processing that is involved with FHA-VA.

And normally, most of them will not get involved on a direct basis because of the problems that exist. So that the mortgage banking company has come along and said, well, we have the expertise, and we can do it; we can set it up; we will sell you the end result, which is basically what has happened.

Mr. O'LEARY. Would it be correct to say, in effect, they still avoid?

Mr. CARUSO. Yes, I would say so.

Mr. O'LEARY. Would it be fair to say, with respect to a savings and loan association, a mutual savings bank, they are not interested in gearing up the sales force necessary to compete with the mortgage banker; they don't have salesmen, I take it?

Mr. CARUSO. Not in a true sense of the word. My feeling is that every office manager is a salesman. It's part of his job to develop business.

Mr. PAYNE. Mr. O'Leary, I think the matter I mentioned before is true. If I am running a savings bank in Watertown, N.Y., I don't have access to this pocket in New York where the demand for mortgage money exists. And I don't have any way to get down there to get to it, so I go to a mortgage company just as I might go to a municipal bond house to buy bonds or other investments to the bank.

Mr. O'LEARY. I guess what I'm asking, if it's a local savings loan in East New York, or a savings bank in East New York, is it fair to say that they wait for the borrower to come in the bank as opposed to the mortgage banker that has a sales force out there soliciting real estate brokers?

Mr. CARUSO. I would think that's fair, yes.

I don't know of any savings bank or savings and loan——

Mr. O'LEARY. Are you familiar with the term "warehousing line of credit"?

Mr. CARUSO. Yes, sir.

Mr. O'LEARY. So we can have our complete record, can you expand on that and tell us what it is?

Mr. CARUSO. Primarily, a warehouse line of credit is nothing more than a line of credit to a specific company to replenish its raw materials, And I use the term "raw material" differently than Mr. Payne does; to me, it's dollars, because without dollars you can't make the loans that are submitted.

When a mortgage banking company originates mortgage loans, until such time as it receives the mortgage insurance certificate, and is paid by the ultimate investor, it has to roll these loans over, so to speak, make an arrangement with a commercial bank that they will borrow at a—well, most of the borrowing rates are keyed to prime, whether it be a half over prime or a quarter over prime or whatever it might be.

And they place with the commercial bank, the paper that they have originated. That is the security for the loan. This enables them to take the dollars or a percentage of those dollars, and reinvest them in additional loans so that you have a continual turnover. If not, many mortgage companies would be out of business after 2 weeks, they just would not have the capital to continue.

Mr. O'LEARY. Can you tell us which banks offer warehousing lines of credit?

Mr. CARUSO. I can to the best of my memory. I may be leaving some out. We have lines of credit established with Chase Manhattan Bank, Franklin National Bank, Marine Midland, and, of course, Empire National Bank, Bank of Commerce, Bank of New York, Kings Lafayette——

Mr. PAYNE. Practically all of the major banks in New York City with a few exceptions, one or two exceptions.

I might say, I think those lines total about \$22 million.

Mr. CARUSO. \$25 million.

Mr. PAYNE. \$25 million.

Mr. O'LEARY. I'm sure you are also familiar with the term, "foreclosure line of credit," am I correct?

Mr. CARUSO. Yes.

Mr. O'LEARY. Can you expand on that?

Mr. CARUSO. This is basically the same type of situation with one exception. When a mortgage company is in the process of foreclosing a piece of property, whether it be for nonpayment or other reason, it takes this loan and holds it until such time as the FHA and/or VA meets their guarantee or insurance certificate.

It takes the loan and places it again with a commercial bank, so that they can utilize some of the moneys invested in that particular loan to originate other loans.

A foreclosure line of credit is usually held at—well, there are two basic situations, one of which is that you normally have a good idea of what the cost in the foreclosure involved will be and what the eventual payment from the Federal insuring agency will be, so that the bank—the commercial bank who issues the foreclosure warehouse line of credit would—normally would not exceed more than, I would say, 75 to 80 percent of what it actually is as a safety factor.

Mr. O'LEARY. Can you give us an idea of which banks currently grant United bank foreclosure lines of credit?

Mr. CARUSO. Again, I would say, a portion of the lines that normally are available where a line of credit for x amount of dollars was approved and a very small portion of that is also approved to be utilized as a foreclosure line of credit.

I would say there are probably four or five banks in our line that give us a foreclosure line of credit.

Mr. O'LEARY. Do the warehousing banks accept your escrow accounts as part of your compensating balance?

Mr. CARUSO. These are set up as trust accounts for the particular account or institution we are servicing.

Mr. O'LEARY. Can you give us an idea of what the various percentages are of mortgages which are sold to Fannie Mae by Empbanque and United?

Mr. CARUSO. At the present time, it's basically a small percentage. Probably, it would run somewhere—again, I would have to check the records to be accurate—somewhere around 25 to 30 percent. I don't think much more than that.

Mr. O'LEARY. Prior to the suspension of United, can you give an idea of what percentage of mortgages went to Fannie Mae?

Mr. CARUSO. I have no idea, but I would say, a much higher percentage.

Mr. O'LEARY. Who buys mortgages from you in addition to Fannie Mae?

Mr. CARUSO. Many varied investors, insurance companies, savings banks, pension funds; you name them.

Mr. O'LEARY. With respect to savings banks, do these include banks, both banks in New York City and New York State and out-of-State banks?

Mr. CARUSO. Primarily, most of our investors are from New York State.

Mr. O'LEARY. I assume this would also include institutions geographically located in the New York City area?

Mr. CARUSO. Yes; it does.

Mr. O'LEARY. Are these banks referred to as "take-out" banks?

Mr. CARUSO. Depending on how you use it. The word take-out is primarily used in conventional lending. This is a situation whereby the building loan for the construction of the house is placed with what we call an "interim lender." I don't want to confuse it with the "interim funding" that we have been using in another matter.

The interim lender would place the construction funds on the house. *xyz* savings bank would issue a commitment upon the completion of the house, and also subject to the approval of the purchaser's credit.

Once this is committed to by *xyz* savings bank, he would then, in effect, call that a take-out bank, because when the construction is completed, and title is conveyed, *xyz* savings bank would make the permanent mortgage.

Mr. O'LEARY. Where I misuse the terminology, please don't hesitate to—we are interested in developing a record, which is clear and which people, who are not expert in this business, can understand.

Does the mortgage company usually sell mortgages on the same terms or are some buyers choosier than others?

Mr. CARUSO. I would say, yes, there are some investors who are much more stringent in their requirement. We use, internally, a term, we say, "there are buyers of paper," and then, "there are buyers of loans." You have situations——

Mr. O'LEARY. Buyers of paper and buyers of mortgage loans.

Mr. CARUSO. Of mortgage loans. In other words, as long as it's insured or guaranteed, they will buy. Others will look at the credit criteria and they will set their own standards which you'll have to meet.

We had certain situations where they give us definite guidelines of income. In other words, for example, the income must be at least two and a half times the debt service. The income must come from just the husband, unless the wife is professionally employed, such as a registered nurse, or something of this nature.

Many lenders will not take the wife into consideration at all. Many lenders will not take part-time employment into consideration. And there are various ways of setting this up. You develop your own set of criteria—you know basically, by the application whether it will fit into a certain particular situation.

Mr. O'LEARY. What about the piece of property? Do some buyers want a picture of a piece of property?

Mr. CARUSO. Yes. We submit with the package, not only a complete breakdown on credit, and also the information that has been submitted to FHA and/or VA, but also a color picture—and I stress the word "color" because you would be surprised the difference between a black and white photograph and a color photograph.

There are many things you can see in a color photograph, that you would not see in a black and white one. We submit a color photograph together with the package. In many situations, the banks inspect the properties themselves. They send a man out to take a look at it.

Mr. O'LEARY. I take it this relates to the term "purchase with a right of selection"?

Mr. CARUSO. Yes.

Mr. O'LEARY. Can you expand on that and tell us what it means?

Mr. CARUSO. Very simply stated, it would mean we might send out a package of, say, 10 mortgage loans to, XYZ savings bank under a commitment that had been established prior. They normally commit to us for a certain amount. Say, they will purchase up to \$1 million of FHA insured or VA guaranteed loans, carrying a certain interest rate.

We may submit a package of 10 loans, and they have the right under "the right of selection" to take two of them, or eight of them, or whatever they so desire out of that particular package.

They return the others and we would submit another package until such time as they meet the committed amount.

Mr. O'LEARY. Is there a difference in market price for mortgages purchase with right of selection, and for those without a right of selection?

Mr. CARUSO. There's a very small difference as far as that is concerned. The major difference is the market with the servicing be retained by the mortgage company, and I can't speak for any other company. I don't know that they do, but there is almost no difference in price with a right of selection, as far as United is concerned.

Mr. O'LEARY. Can you give us an idea of what a difference might be; would it be as high as a point or less?

Mr. CARUSO. You are speaking of the right of selection?

Mr. O'LEARY. The right of selection.

Mr. CARUSO. I can't honestly answer that. I would think somewhere around a half to one point, but I don't honestly know.

Mr. O'LEARY. How much of your business is on purchase money mortgages as opposed to refinancing?

Mr. CARUSO. Let's say, almost 99 percent of our business is purchase money mortgage. In fact, most of our refinancing is "walk-in" business with people having obtained their loans through us before, have come back and said, "we would like to refinance it."

Mr. O'LEARY. How much of a fee does a mortgage company collect for originating the mortgage?

Mr. CARUSO. They are entitled to, on an FHA case, I should say, the law provides a one percent origination fee, and also, the purchaser can pay up to a one-percent attorney fee. In the VA case, it would be 1 percent, and it would be paid by the purchaser.

Mr. O'LEARY. Is this fee high enough to make the mortgage origination profitable?

Mr. CARUSO. It depends upon the market conditions at the time. Today, I would say, no, it does not.

Mr. O'LEARY. In addition to the origination fee, does the buyer of the home pay a fee in connection with getting the mortgage?

Mr. CARUSO. The buyer of the home should not pay other fees in connection with the mortgage. Normally, this is charged to the seller. The seller, in selling his home, must make up the difference between the discounts that are prevailing at that time and what can actually be obtained.

Were you referring to attorney fees, title policies, et cetera?

Mr. O'LEARY. Yes.

Mr. CARUSO. Yes, then he, the purchaser, would be responsible for other fees. He is responsible for any and all closing costs, such as title,

company charges, the appraisal fee, and the fee for credit reports, and his own attorney if he so chooses to have one at the closing.

Mr. O'LEARY. As I understand it, the mortgage company, then also charges points to the seller of residential property.

Mr. CARUSO. You are speaking of a discount. In many cases, they do, and this varies with market conditions.

Mr. O'LEARY. Can you give us an idea how a mortgage company goes about deciding how many points to charge the seller?

Mr. CARUSO. I can give an idea on basically how we do it. We depend a great deal upon market conditions for this. They exist week to week. We check Fannie Mae prices, which is very difficult today, because Fannie Mae prices are still much lower as far as discounts are concerned. We know what we can sell through other investors. We try to gear our discounts to what we can sell those.

Our feeling is, and we have been doing it in the last 3 or 4 months, is to originate the mortgages at a discount that at least takes care of the discount we have to sell them for. The one and one or the 1 percent is what we feel covers the operating cost.

Mr. O'LEARY. It's correct to say, then, that you attempt to keep the spread represented by the number of points the seller pays you and the number of points you have to pay on the secondary mortgage?

Mr. CARUSO. Basically, I would say, yes.

Mr. O'LEARY. You have a target you should follow with respect to that spread? You covered that.

Mr. CARUSO. I would only just say, it depends upon the market conditions at that time.

Mr. O'LEARY. For the benefit of the record, can you explain what "servicing mortgage" means?

Mr. CARUSO. Servicing the mortgage would be after the loan is closed and the purchaser has received title, and he is in the house, we would collect the monthly payments. For example, we would collect principal, interest, tax escrow payments, insurance escrow payments; mortgage insurance escrow, in the case of an FHA loan.

In the case of a conventional loan or a Veterans' Administration loan, we would collect taxes, insurance, escrows, and principal and interest.

Mr. O'LEARY. Can you give us an idea what the fee for servicing is?

Mr. CARUSO. Today, the average fee runs between a quarter of 1 percent and three-eighths of 1 percent.

Mr. O'LEARY. How do you go about deciding the charge?

Mr. CARUSO. Well, it depends. The average fee, I would say, today is—you really cannot make any money servicing a quarter of 1 percent. The details involved in servicing a loan, if the payment is late, you have to send someone out and dunning is involved trying to get these late payments in, the collection procedures that are involved, the inspection procedures, are all born by the mortgage company.

Mr. O'LEARY. What might an investor pay for a mortgage purchased with service as opposed to one without service?

Mr. CARUSO. I would say, if in the original sale of a mortgage, if the price of the sale to the investor—it's worth about a half a point. Let me give you a hypothetical situation. If you can sell a mortgage today at, let's say, 98 servicing at a quarter, we would—let me get my facts straight.

The sale of a mortgage with three-eighths servicing would probably be sold for 97½. We would sell at 97½ with three-eighths versus 98 with a quarter servicing.

Mr. O'LEARY. The servicing, though, am I correct, that includes the benefit of having the interest free escrow account money to work with, namely, the money that goes to property taxes, insurance?

Mr. CARUSO. When you say "work with," the only area you could work with is compensating balances.

Mr. O'LEARY. When the mortgage company sends the mortgage to you, can you give us some idea how the decision is made about which title insurance company to use?

Mr. CARUSO. That's normally handled by the purchaser's attorney. That's my experience. I can't speak for the normal operation as far as mortgage companies are concerned, but I know, based upon my past experience, this is normally handled by the purchaser's attorney.

Mr. O'LEARY. Thank you, Mr. Caruso.

Mr. CARUSO. Thank you.

Mr. BLUM. In your statement, you described Empire and its early relationship with United, can you tell us, for the record, why a commercial bank would have that sort of relationship with a mortgage company in its own territory; what kind of deal might that have been, new construction?

Mr. CARUSO. Well, basically, the reason for the relationship as it existed is that it was first of all, all in construction. We were, at that time, in an area of New York State which had tremendous phenomenal growth. In the past 10 years, just since 1962, it's just unbelievable what has happened in that area.

And we, as a commercial bank, felt that we would try to do whatever we could for our trade area and for our customers, but there was just no way that we could serve the needs of these people in handling the growth that was taking place around us.

United Institutional had been doing business in that area long before we got involved in a line with them, and it turned out that many of the customers (builder customers) that did business with Rockland National at that time, also did business with United.

United was able to facilitate the tract developments. They would be able to handle entire tracts where you were talking of maybe 50-60-100-150 homes at one time. We were just not geared to set up that way.

So, in order to serve our customers and at the same time serve our own area, we entered into this arrangement with United. Now, this was specifically on a builder approved basis. In other words, before we would issue any commitments on construction loans, we first of all had to know the builder, had to be sure that the statements he submitted were correct, and/or that he did business with us before, and that there were firm commitments issued by the permanent investor.

Mr. BLUM. In the case of those loans, the permanent investor was typically a New York City savings bank which would then buy both the loan and the servicing, is that your understanding?

Mr. CARUSO. Yes, they would buy it from us by assignment.

Mr. BLUM. Your prior business with United before you bought Capital Ventures, was very different than the kind of business we are talking about, the single family FHA spot loan?

Mr. CARUSO. Yes.

Mr. BLUM. On page 3 of the statement, you indicated that you are aware United had been suspended by Fannie Mae before you made the purchase, didn't the suspension mean you were buying a mortgage company which was denied access to the most important purchaser in the secondary market?

Mr. PAYNE. That is correct, Mr. Blum, we recognized that. At the same time, we felt that the standards of management, that we could and would apply to the mortgage banking business would enable us, as we are, our own bank is an approved Fannie Mae-Gennie Mae seller-servicer, and this is true, also, of Empbanque Corp.

So we felt that where United had sort of struck out, if you want to put it that way, we had some other batters in the box and we felt that with the type of management and the reputation that we could get behind us, this should not be a problem.

Mr. BLUM. As you described the corporate structure, Empire really purchased two federally approved mortgage-approved companies, Delta and United?

Mr. PAYNE. That's correct, although Delta became Empbanque and was approved as a Fannie Mae servicer.

Mr. BLUM. Why would the same parent company set up two different federally approved mortgage company subsidiaries?

Mr. CARUSO. It's a very difficult question to answer. My understanding at the time was that Delta did very little in the way of FHA-VA business. In fact, it had been set up; it had not been used for this specific purpose. But I really don't know what the reasoning was to set it up.

Mr. BLUM. Fannie Mae did not approve Delta, then, as a seller?

Mr. CARUSO. No, sir. The only approval Fannie Mae had ever given, to the best of my knowledge, was a conditional approval to service the one who originates the mortgage in their Newburgh area.

Mr. BLUM. Who first approached Empire about the acquisition?

Mr. PAYNE. Again, remember this was a longstanding arrangement between principals of UISC, and then, Rockland National Bank. We had some preliminary discussions with them about possibly acquiring them when we were still Rockland National Bank, and this must have been around 1967-68. We were still thinking about whether we should make an offer when Arcs did, and bought them.

Subsequently, because of some changes in the direction that Arc Industries themselves wanted to go—they wanted to buy a brokerage house. In order to qualify for that, they had to derive more than 50 percent of their income from brokerage transactions in the street.

And that meant they had divest themselves of the income from their mortgage banking operation, and for that reason Capital Ventures became available again.

Mr. BLUM. You mentioned the Comptroller of Currency approved the merger; that wasn't after an audit, was it; it was a matter of your applying?

Mr. PAYNE. I'll ask Mr. Nicoll to answer that.

Mr. NICOLL. Under the rulings of the Comptroller of the Currency, a national bank must obtain this prior approval before acquiring a wholly owned subsidiary corporation. This is to make sure, for one

thing, that the corporation being acquired is engaged in activities which are permissible for a national bank.

Mr. BLUM. It doesn't imply any approval of a transaction or examination of the company, or anything like that.

Mr. NICOLL. No, sir; that's correct.

Mr. BLUM. Did you have to get the merger approved by Veterans' Administration or the FHA?

Mr. PAYNE. No, sir.

Mr. BLUM. Were you afraid at the time of the merger that the Fannie Mae suspension might lead to a VA suspension?

Mr. PAYNE. There is no indication that would be the case, and no fear that it would. Maybe we were optimistic.

Mr. BLUM. Would a HUD suspension put United out of business pretty much?

Mr. PAYNE. Just about.

Mr. BLUM. I would like to raise some questions about the interim financing problem. On page 4 of the statement, you raised the question of interim financing. Did brokers approach the company asking for short-term loans to acquire houses?

Mr. CARUSO. I would imagine so. I have never been involved.

Mr. BLUM. This would principally occur prior to your acquisition?

Mr. CARUSO. All of this was prior to our acquisition.

Mr. BLUM. Was the Delta Capital Corp. the vehicle for the interim financing?

Mr. CARUSO. Yes, it was, which I subsequently found out.

Mr. BLUM. Delta is HUD approved?

Mr. CARUSO. Yes.

Mr. BLUM. What was the interim interest rate?

Mr. CARUSO. From what I understand, somewhere between 18 and 21 percent.

Mr. BLUM. For the record, I offer a copy of the interim lending records of Delta. These records were furnished to the subcommittee through the cooperation of Mr. Caruso.

(The records may be found at p. 1068 following the testimony of Warren Light.)

Mr. Caruso, when you first saw these records, were you surprised to learn about Delta's volume of lending business?

Mr. CARUSO. Very much so.

Mr. BLUM. You have been given a set of the records. Just identify them as being the same ones as you gave me.

Mr. CARUSO. They are, in fact.

Mr. BLUM. According to the records, who put out the money for the loans?

Mr. CARUSO. According to the records, the majority of the money was put up by the officers and their families.

Mr. BLUM. The loans were paid off at the time the property was sold by the speculator to an eventual buyer, is that correct?

Mr. CARUSO. Actually, loans were paid off at the time of conveyance.

Mr. BLUM. At the closing.

Mr. CARUSO. Yes, at the closing.

Mr. BLUM. So if the speculator had not been able to find the buyer, those loans might have fallen through, the employee of the company might have been out?

Mr. CARUSO. That is right.

Mr. BLUM. Didn't this put a good deal of pressure, personally, on the United staff to approve a loan on a deal that they had money in in interim financing?

Mr. CARUSO. I would imagine so.

Mr. BLUM. On these sheets, we counted roughly 600 and some loans, did you do any sort of tally as to what the volume of that business was?

Mr. CARUSO. You mean, dollar amount?

Mr. BLUM. Dollar amount.

Mr. CARUSO. No, sir.

Mr. BLUM. Which were the United employees that participated in the loans?

Mr. CARUSO. According to the list we have been able to come up with, a good many of them.

Mr. BLUM. The chairman of the company, Mr. Katz? Is that right?

Mr. CARUSO. Yes.

Mr. BLUM. You had Mr. Roth, president?

Mr. CARUSO. Yes.

Mr. BLUM. You had several of the attorneys, who were closing attorneys; Mr. Light, who was another officer of the company, is that correct?

Mr. CARUSO. Yes. And you have the families of these individuals.

Mr. BLUM. And the number of the closing attorneys were in that, too?

Mr. CARUSO. I believe so, yes.

Mr. BLUM. You indicated that the loans were made by the individuals, not the company. I gather that Delta did not get rich on these loans.

Mr. CARUSO. No, sir; Delta did not get rich.

Mr. BLUM. Were any of the firms or brokers on that list later suspended by you as being people you didn't want to deal with?

Mr. CARUSO. I haven't gone through the list at this particular time. I would imagine so. In fact, I can almost unequivocally state that, yes, a number of them.

Mr. BLUM. You have now stopped making any interim loans at all?

Mr. CARUSO. Yes, that's right.

Mr. BLUM. Your competitors, I take it, are still in the interim lending business?

Mr. CARUSO. To the best of my knowledge.

Mr. BLUM. That might very well serve to put you in a competitive disadvantage if someone else were to grant an interim loan. You are unable to grant the speculator that?

Mr. CARUSO. No question about it, but it goes even further. If you don't, why should they bring the other business to you? They normally bring their business to whoever handles everything.

Mr. BLUM. The two loans are then related. Once the interim loan is made, then the permanent loan is made; whoever provides the short-term money, gets the long-term money?

Mr. CARUSO. Yes.

Mr. PAYNE. I do think we shouldn't necessarily feel we'll be out of the interim and lending business forever because interim financing has

a place for the legitimate buyer of a property, which property needs certain improvements.

Mr. BLUM. That would be on the order of a construction loan?

Mr. PAYNE. That's right. I am sure we will be getting back into this. When we do, it will be on the same strict standards we do in the construction mortgage financing, and in the banking business. People do need turnaround money. It's legitimate. Otherwise, we and others would be depriving people, in some of these areas, of the possibility of acquiring a property in decent condition, and we hope at a decent price.

We stopped everything unequivocally now because to take a deep breath and start over again, trying to deal with the reputable person who is buying property, and properly reconstituting and reselling it, and he should have a profit on it.

We want to deal with reputable people and on the basis we can control it.

Mr. BLUM. Without a conflict of interest?

Mr. PAYNE. Yes.

Mr. BLUM. With, perhaps, somewhat different interest rates?

Mr. PAYNE. I would think so. And 18 percent is a nice rate, but it depends upon which end you are on, I think.

Mr. BLUM. Do you know of any circumstances where short money loans were made one place, and later they came in and put the mortgage somewhere else?

Mr. CARUSO. Not to my knowledge. But it's possible.

Mr. BLUM. Just a couple of questions about the pricing process on the loans at the time you first bought. Which company had the responsibility of deciding how many points to charge the broker?

Mr. CARUSO. I would say, that would be Mr. Roth.

Mr. BLUM. Mr. Roth was president of United. He made that decision?

Mr. CARUSO. Yes.

Mr. BLUM. Have you asked for an independent audit to find out whether or not the brokers were paying all the points to United? Or whether perhaps they were paying other points and going to other individuals?

Mr. PAYNE. To the best of my knowledge, the audit conducted by Peat, Marwick, Mitchell did not go into that. I cannot unequivocally say it did not.

In our audit procedure we are talking about in the future we are going to try to have some way of confirming that, because any individual doing that would certainly be defrauding the company itself of incomes that it supposedly was entitled to by the closing statements.

Mr. BLUM. I gather from discussions with officials of United, the way Mr. Roth set the number of points was something of a mystery to the rest of the people employed there. Is that a fair way of putting it?

Mr. CARUSO. It is entirely possible.

Mr. BLUM. What changes have you instituted? How do you decide the price now? Is it a committee decision?

Mr. CARUSO. Primarily, yes. I would not say a committee decision, maybe a committee of two Mr. Payne and myself. We discuss the various markets and what we find when we try to sell loans.

Mr. BLUM. You establish a kind of posted rate for your business?

Mr. CARUSO. Oh, yes. We have also instituted what I would call a production department. These are people who are responsible for producing the product. In addition to that, the people who are responsible for selling that product to the investors now meet together regularly and discuss their various problems, which is something that did not happen before, so that the solicitor knows the problem the salesman has in selling that loan to a bank and he looks for the particular type.

Mr. PAYNE. This will also improve the quality of the loan that the solicitor is producing or discussing with brokers.

Mr. BLUM. Which officials of the company attend closings on behalf of the various capital ventures subsidiaries? Who are the individuals in the closing representing the company?

Mr. CARUSO. Primarily the attorneys that are supposedly—well, they are there to protect the interests of the company. That would be Mr. Canavan, Mr. Plump, Mr. Light, and in certain situations Mr. Don Blynn.

Mr. BLUM. One of the jobs those attorneys would have would be to scan the papers to be sure everything would be in order, to make sure the buyer is, indeed, the buyer, and there is no sort of fraud in the transaction which might injure the company?

Mr. CARUSO. Right. Their main function is to protect the company.

Mr. BLUM. Were they paid salaries by Capital Ventures?

Mr. CARUSO. Yes.

Mr. BLUM. As you said, they were there to protect the company's interest. Now, we obtained under subpoena records for a number of those people who attended the closing. You have asked those employees for copies of the records. Does the record show they were also receiving payments from speculators?

Mr. CARUSO. Yes.

Mr. BLUM. What was the actual payment for closing?

Mr. CARUSO. I would say approximately \$20.

Mr. BLUM. Sometimes \$25, sometimes a little more. How many closings a day would an employee handle?

Mr. CARUSO. Prior to our acquisition?

Mr. BLUM. Yes.

Mr. CARUSO. I would say it is entirely possible that they could have closed five or six or seven.

Mr. PAYNE. Mr. Blum, in connection with that, the payments, they received payments from speculators. As I understand it, they received a gratuity from the attorney representing the buyers.

Mr. BLUM. If you recall, it was put in the record there they were subpoenaed, the employees listed having received gratuities from the corporations which were selling, rather than buying.

Mr. PAYNE. This is correct.

Mr. BLUM. The indications they gave us was that it was the speculator who paid for it.

Mr. PAYNE. Yes.

Mr. BLUM. When you announced there would be no further gratuities for United employees, did they complain they were getting a substantial salary cut?

Mr. PAYNE. Yes.

Mr. BLUM. Did they tell you how severe it was? Did they ask for higher pay?

Mr. PAYNE. Yes. They did not get it.

Mr. BLUM. How much did they say they would lose? Did they tell you?

Mr. PAYNE. No, I cannot tell you exactly, but it was several thousand dollars.

Mr. BLUM. Some of the broker dealers did a very large volume of business with United. Is it not likely that in the course of a year that they would make substantial payments to individual United employees and get to know them pretty well as an ongoing, continuing relationship?

Mr. PAYNE. I would assume so.

Mr. BLUM. How does this set up contrast with what happens at Empire National Bank when a loan is closed?

Mr. PAYNE. That is a different ball park. No such practices such as that are encountered, of course. Any bank employee, any bank officer that would be receiving a gratuity would not receive it twice.

This is something in our own standard of ethics, of ethical practices, we are very, very strict about. We have very strict programs of Christmas governing acceptance of gifts. Christmas is the season when every once in a while somebody gives somebody else a bottle or a box of candy. But we have a strict system, for instance, of reporting all gifts of over a certain dollar amount or value. Cash you never take. Nobody can prohibit gifts, but they must be reported to my office personally, by the person accepting that type of seasonal gratuity.

I assure you that the same type of regulation will be applied in the mortgage company.

Mr. BLUM. In the case of other banks, are those regulations part of Federal bank regulations?

Mr. PAYNE. No, they are not part of it. We are certainly encouraged by banking supervisory officials—to have a public standards and ethics code to be followed by the officers and directors and employees of the bank to try to eliminate conflict of interest.

Mr. BLUM. Your supervisory authority would probably raise hell if you did not.

Mr. PAYNE. He is interested in what we have. You know, you blow your own horn a little bit. But he is very interested in what we have done in this respect. In several cases the supervisory people have taken copies of what we have done to show the banks something which they should give some thought to, too. You take your credits where you can get them.

Mr. BLUM. Can you tell us which brokers and dealers were suspended? Give us some idea of who they were, Mr. Caruso?

Mr. CARUSO. Well—

Mr. PAYNE. Recognizing what the Secretary who preceded me and Mr. Cea had to say about this, recognizing that some of the names of these people—they may be actually under indictment or under investigation, I would hesitate to list them at this time. But I will be very happy to make that available when we clear that.

Mr. BLUM. Would you make that available to us through the record?

Mr. PAYNE. Yes, we will make that available.

I would like to clear that list to make sure they are not under indictment.

Mr. BLUM. To the extent that that list is not involved in criminal—

Mr. PAYNE. We will make a request of the Secretary's office, and make that available.

Mr. BLUM. Who is Kiva Berwald? Would you identify him for us?

Mr. CARUSO. Yes. Kiva Berwald is a solicitor of United.

Mr. BLUM. Does part of his job include that aspect of beginning the origination process from the broker, taking the application either with the broker, or picking it up with him, and coming into the United office?

Mr. CARUSO. Yes.

Mr. BLUM. How is Mr. Berwald paid? A usual salary plus commission?

Mr. CARUSO. Yes. Actually, a draw against commissions.

Mr. BLUM. Has Mr. Berwald furnished you with copies of materials furnished the committee on the subpoena?

Mr. CARUSO. No, I have not been furnished with it. I have seen them.

Mr. BLUM. Mr. Chairman, we have a copy of the materials. I ask that that be made part of the record at this point.

(The materials referred to appear at p. 407 following Kiva Berwald's testimony.)

Senator HART. It will be made part of the record. You made reference to other materials obtained, which you discussed with the witnesses. Do you want them in?

Mr. BLUM. Yes.

Senator HART. Yes?

Mr. BLUM. Yes. Thank you, Mr. Chairman.

Let the record show that Mr. Berwald bought and sold several hundred houses through a variety of corporations in which he was an owner, and placed most of the FHA mortgages with United.

I take it you were unaware of this at the time you acquired the company?

Mr. CARUSO. Yes. Most of this was prior to our acquisition.

Mr. BLUM. Were you surprised to see one of the salesmen bringing in his own business and collecting commissions?

Mr. CARUSO. Yes.

Mr. BLUM. Do you think he might have been something less than rigorous in looking at the credit that he picked up from a broker? Is there that possibility?

Mr. CARUSO. The possibility exists, yes.

Mr. BLUM. Mr. Payne, how does Mr. Berwald's dual role sit with you as a bank president?

Mr. PAYNE. It does not, it is indigestible, and pending the completion of this series of hearings and some of our own investigations, I am certain that there will be changes made, additional changes made in addition to those that we have already made.

Mr. BLUM. When FHA conditional commitments require work to be done, how does the mortgage company guarantee it will be done as the commitment requires it?

Mr. CARUSO. It holds an escrow for that particular purpose.

Mr. BLUM. Until several months ago, FHA allowed mortgage companies to certify new escrow funds. Is that correct?

Mr. CARUSO. That is correct.

Mr. BLUM. Who had United—who at United handled those?

Mr. CARUSO. Irving Roiter. He was the one individual who did the inspection.

Mr. BLUM. Did you receive copies of the material Mr. Roiter submitted to the Senate under subpoena?

Mr. CARUSO. Yes.

Mr. BLUM. I ask that it be made part of the record at this point.

Senator HART. Without objection, it will be.

(The documents referred to appear at p. 509 following Irving Roiter's testimony.)

Mr. BLUM. Those records indicate Mr. Roiter received gratuities from the brokers for whom the inspections were performed?

Mr. CARUSO. Yes.

Mr. BLUM. What else did Mr. Roiter do for United?

Mr. CARUSO. He, on occasion, collected some payments due the company on delinquent mortgage loans.

He was on a collection basis.

Mr. BLUM. Have people who made mortgage payment to United complained to your office that some collection man has been around and said, "Stop making the monthly payments, and pay me rent"?

Mr. CARUSO. Yes.

Mr. BLUM. Have you been able to find out who has been doing that?

Mr. CARUSO. No.

Mr. BLUM. Can you tell us what R & W Associates was and what its relationship to United was?

Mr. CARUSO. This was something that happened prior to our acquisition, but to the best of our knowledge, R & W Associates is a real estate broker. They did a tremendous amount of business.

Mr. BLUM. How many cases in the course of a year?

Mr. CARUSO. In 1970 they processed somewhat over 400 cases.

Mr. BLUM. That is one or two every business day. Lowell Wienerman was a principal in R & W Associates?

Mr. CARUSO. I believe so. Again, I have had no dealings with R & W.

Mr. BLUM. Were you recently approached by a former associate of Mr. Wienerman's to handle large packages of mortgages which he had gotten released from another company?

Mr. CARUSO. Yes.

Mr. BLUM. Those were released by the Inter-Island Mortgagee Corp.?

Mr. CARUSO. Yes.

Mr. BLUM. Did Mr. Altabe tell you why he was no longer doing business with them?

Mr. CARUSO. I never spoke with Mr. Altabe. My understanding was he was bringing them to us to see what we could do. We looked at them with the right of selection. Also, again, we reverified them and we made sure these were cases that would fit into our established criteria.

Mr. BLUM. Did you accept the whole package?

Mr. CARUSO. No.

Mr. BLUM. You rejected a number of them?

Mr. CARUSO. Yes.

Mr. BLUM. Have there been FHA commitments on some of those you rejected?

Mr. CARUSO. To the best of my knowledge, I believe so.

Mr. BLUM. Since the time Eastern Service has been suspended by HUD, had you been approached by officials at Eastern that handled closings which they were no longer permitted to do?

Did they ask to be paid for the deals they referred to your company?

Mr. CARUSO. The situation was: The loans would be purchased at a discount.

Mr. BLUM. What sort of discount are we talking about here?

Mr. CARUSO. I would have to check. I would say the average was around four points.

Mr. BLUM. When you deal with another mortgage company, is there not a fear the competitor will learn who your clients are, and therefore be afraid to hire them?

Mr. CARUSO. To a certain extent, I would say so. This is actually a matter of public record. All such sales are put on a list where any mortgage company can tell who is doing business.

Mr. BLUM. With Eastern looking for someone else to close its deals, is it not finding it possible to circumvent the effect of suspension?

Mr. CARUSO. Yes.

Mr. BLUM. The suspension really does not mean very much to them?

Mr. CARUSO. Maybe not to them.

Mr. BLUM. When was the first time HUD audited the books of any Capital Ventures subsidiary?

Mr. CARUSO. I do not know.

Mr. BLUM. You have no knowledge of them ever having been audited?

Mr. CARUSO. No.

Mr. BLUM. Have any Capital subsidiaries ever been recommended by HUD or had discussions with HUD people?

Mr. CARUSO. Not to my knowledge.

Mr. BLUM. Would it be fair to describe a mortgage company as a private, unregulated bank?

Mr. PAYNE. Yes, it would.

Mr. BLUM. Your position, I take it, is that it has to be subject to regulation or competitive pressures will either put it out of business or lead it down a path of temptation?

Mr. PAYNE. Yes, that, in combination with what I said previously. I feel further protection of the consumer and the taxpayer and the Government insuring agency is necessary. I cannot conceive that this unregulated practice should be maintained.

I am not necessarily a believer that everything has to be controlled or regulated to the "nth" degree so the whole economy or the process is strangled. But I think, again, as I pointed out previously, the supervision had been very properly applied. The banks are still in business.

Mr. BLUM. You see no problem about employing banks' conflict of interest standards with the mortgage companies?

Mr. PAYNE. No.

Mr. BLUM. You have no problem with bank type examination of the mortgage companies or perhaps checks of loans?

Mr. PAYNE. As I told you previously, we tend to apply that same type of procedure to our own internal audit. I do know that the Comptroller's Office plans to make an examination of the mortgage company from time to time.

Mr. BLUM. You are convinced if these procedures are followed, the mortgage companies can make good loans to relatively poor, minority group people?

Mr. PAYNE. Yes, I am. There are certain inherent risks involved that we are all aware of. You are talking about terms of mortgages that go considerably longer than average and risks which are considerably above normal. Normally, in assuming a risk for a loan, you can compensate for that risk by what interest rate you charge for the loan.

In other words, if there is a higher risk, you charge a higher rate to make up for your odds of having the loan go bad. To do the same thing in the mortgage area or in other areas, it could possibly be a disservice to the people you are trying to help. This has to be avoided.

They have to be able to buy this loan at a reasonable rate of interest that they can handle.

Mr. BLUM. The significant point of what you are saying to me is this: If an FHA loan is properly originated with proper controls and proper regulations, there is no particular reason why it should be risky under all of the present laws and regulations, all of the ones that do business. It is still going to be reasonably safe. It will not be measurably different?

Mr. PAYNE. I think it is something, as the Secretary said before, was important. He pointed out, in our dealings through our bank officers, that we do consult with people about what they are getting into when they are buying a home.

When you look at somebody—they have got to have enough money. I know from my own personal experience, as I am sure you do from your own home, you put so much aside to meet your mortgage payments, the taxes, and insurance, and some for the roof that may leak. Those types of repairs, unless you put a little in the sugar bowl to take care of them, are going to get you into difficulties.

The person buying a home is going to have to maintain the property, too.

Mr. BLUM. This is part of the normal job of the credit underwriter, no matter if he is working with the mortgage company or the bank or whatever.

When a customer comes in, it is up to the bank, "You better remember you are going to have to replace the roof, and you really should not try to spend quite that much money or you are going to be in trouble."

Mr. PAYNE. Of course, the proliferation of this is not only in the ghetto, the lower disadvantaged areas. It has been the problem of people in the middle-income bracket, too, where in order to maintain their homes and everything else, they saddle themselves not only in mortgage debt, but with short-term loans.

The bankruptcy courts have been filled with some of them in recent years.

I think this applies in this area, too. It creates personal disadvantages and difficulties for the individual and his family.

Mr. BLUM. I am going to thank you very much for the cooperation you supplied to the committee on a number of visits to the United offices, and the frequent telephone conversations, and also to the supplying of those documents and records.

I do not think we could have proceeded with this investigation as easily as we have without the kind cooperation from all of you, and I thank you.

Mr. PAYNE. I appreciate those words. I want to assure the committee of our continued cooperation. This is something we are very vitally interested in ourselves, not only just from the fact we are involved in the business. We feel that we have a social responsibility to be helpful to this investigation and other programs that may grow out of it.

I want to assure you of the continuing cooperation of our mortgage company and the people of the bank, and our continued availability to consult with you or any other groups to proceed further in this area.

Mr. O'LEARY. I have just a couple of more questions.

I am not sure I asked you this. I meant to.

Is there any difference in the number of points charged between competing mortgage companies?

Mr. CARUSO. I would imagine so. To a large extent I really cannot answer that question, not knowing the policy or procedure of the others, although I would say this—our solicitors invariably come back and say, "XYZ Company is charging 2 points" on something we may be quoting 2½ on.

I do not know that they are actually charging that.

Mr. O'LEARY. There is some variance between the number of points charged?

Mr. CARUSO. I would say so.

Mr. PAYNE. I would say the variance narrows, based on the market, assuming they are all legitimate operators. You have to be very sensitive to what you pay for the raw material in terms of what you are going to sell your finished products for.

If you cannot cover your expenses, No. 1, you are going to be out of business; and, hopefully, you have got to make that little bit more that is going to leave a little black ink on the books.

Mr. O'LEARY. What about a real estate guy who is really a high volume producer? I assume your solicitor wants to maintain a continuing relationship with this kind of program. Does the broker ever attempt to extract something more in terms of the volume of business? Mr. CARUSO. When you say, "extract something more," you are talking about lesser discounts?

Mr. O'LEARY. Yes, either that or some other fee or kickback. I do not mean to imply anything on the board.

Mr. CARUSO. In the past, I would say "Yes." But effective May 1, you cannot give a kickback in any particular situation in which he is receiving a fee from someone else.

Mr. O'LEARY. Prior to that time, what form would a kickback fee take?

Mr. CARUSO. I have heard of situations—again, I had no active part in this, it is something that preceded our acquisition. I understand a quarter to a half point would be given back to the broker, so to speak. It may have been more than that. I really do not know.

Mr. O'LEARY. All right. I do not recall, Mr. Caruso or Mr. Payne, but one of you indicated that Chase Manhattan Bank, among others, provided United with a warehousing line of credit. I believe you said the total is in the neighborhood of \$25 million.

Mr. CARUSO. That is the total of all banks.

Mr. O'LEARY. What about your line with Chase Manhattan?

Mr. CARUSO. I believe it is \$5 million.

Mr. O'LEARY. As a correspondent bank, how much does Empire deposit?

Mr. PAYNE. That varies in relation to service rendered. It has nothing to do with the relationship—we were doing business with Chase, carrying large balances, prior to this acquisition. Our balances in Chase are now probably in the neighborhood of a million dollars, probably.

Sometime ago they were running \$5 or \$6 million. We were clearing all of our checks, our New York City checks, through them.

They have decreased since. Chase is the bank that does most of our safekeeping work, in securities and so forth. Those balances are really to compensate them for those services rendered which are substantial.

Mr. CARUSO. This warehouse line that the company has with Chase had been established prior to our acquisition. It has not changed since Empire was involved in the picture.

Mr. O'LEARY. You are responding to the thrust of my question, which is: Does it have any effect on Chases' willingness to do business with United?

Mr. PAYNE. I would not think so. But I think the fact that Empire is now the owner of Capital Ventures and its subsidiaries, and their understanding of our own stability and our determination—it must have a little influence, because I think they would be better off with us than without us.

Mr. O'LEARY. I would like to extend my thanks for bearing with me and going through this series of questions. You have been very helpful to us. Thank you.

Senator HART. Mr. Nolan?

Mr. NOLAN. Thank you, Mr. Chairman.

Mr. Caruso, do the mortgage companies employ their own property appraisers?

Mr. CARUSO. When you say "appraiser," you mean as far as inspections are concerned?

Mr. NOLAN. Physical appraisers.

Mr. CARUSO. I would not think so. The only time we utilize the services of an inspector is on compliance inspections.

Mr. PAYNE. The original appraisals of these properties are made by FHA's employees.

Mr. NOLAN. I think the buyer of the real estate—do they have appraisers of property?

Mr. CARUSO. It is possible.

Mr. NOLAN. Would it be common practice?

Mr. CARUSO. It would not be common practice. There would be some investors, as I said before, that would make appraisals on their own.

Mr. PAYNE. In some areas it is not uncommon for a purchaser. I have done this myself, to get an appraiser up to see what the purchase price I was thinking of, if it was in the ball park. That was independent of whatever appraisal a financial institution would make.

The kind of property we are talking of, I am sure it is not a common thing.

Mr. NOLAN. Thank you.

Senator HART. Mr. Kern?

Mr. KERN. You have been put at a competitive disadvantage, you testified, by the reformed procedures adopted at United. Does this give you some feeling that abuses are widespread in the industry?

Mr. PAYNE. In the mortgage banking community, yes, I think it has very definitely. I would not conclude that in my testimony, to be crying in my beer, so to speak. I am just saying what the facts are.

This certainly has made us more keenly aware of the functions of the marketplace.

Mr. KERN. One more brief question. It was suggested earlier by Mr. Lomenzo that the tale of woe for a purchaser often begins with a faulty FHA appraisal. Do you have any comment on that?

Mr. PAYNE. That is certainly possible. There are certainly cases where there have been overappraisals of property, and in a conversation unrelated to this hearing or anything else recently, an attorney in Long Island was talking about the high appraisals he would come across in some properties, and in particular, a particular section of Long Island. It was an FHA appraisal. He was involved in the closing, and he was amazed at the appraisals that came through.

Whether that alludes to any "walking the mortgage through" or whatever the term is that leads to a false appraisal, I would not be in a position to comment on that.

I think sometimes they are unfair appraisals.

Mr. KERN. Thank you.

Senator HART. Gentlemen, all of us are grateful to you. Thank you very much.

We will adjourn, to resume in this room tomorrow at 10 a.m.

(Thereupon, at 2 p.m., the subcommittee recessed, to reconvene at 10 a.m., Thursday, May 4, 1972. Testimony resumes on p. 25.)

Material Relating to the Testimony of John Payne

EXHIBIT 1

Letter to Edwin Katz From John Payne, Jr., Dated Jan. 18, 1972

EMPIRE NATIONAL BANK,
New City, N.Y., January 18, 1972.

Mr. I. EDWIN KATZ,
Chairman of the Board,
United Institutional Servicing Corp., New York, N.Y.

DEAR MR. KATZ: As Chief Executive Officer of Empire National Bank, I am concerned that the quality of mortgages acquired, originated, or merchandised by Capital Ventures, Inc. and its subsidiaries be maintained at a high level.

As you are well aware, there is a continuing criticism of the quality of portions of the mortgage packages merchandised by our companies in the past. We must be certain that Capital Ventures, Inc. and its subsidiaries are not subjected to any new criticism of this type.

The best way to accomplish this would appear to be through effective quality control. Accordingly, I will appreciate your reviewing with me, as soon as possible, the quality control criteria that you are establishing and the procedures you will follow to make certain these criteria are being maintained.

I will discuss this with you in further detail if you care to do so, but a restriction on the acquisition of substandard paper should not be deferred pending our discussion.

Sincerely,

JOHN PAYNE, JR.

EXHIBIT 2

Letter From Kenneth Duncan to Frank Caruso Dated Feb. 10, 1972 and Enclosures

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
February 10, 1972.

Mr. FRANK J. CARUSO,
President, Empbanque Capital Corp.,
New York, N.Y.

DEAR MR. CARUSO: We have approved your Corporation as an eligible GNMA Seller with regard to FHA and VA mortgages. You may now use our facilities as provided by the enclosed executed copy of the Selling Agreement, which is to be retained for your records.

Your Corporation was previously approved as a GNMA Servicer on a limited basis. This restriction has now been lifted.

Please continue to use the same nine-digit Code Number (13344-000-3), as was previously assigned. This number must be used in all correspondence, remittances and reports.

We are enclosing an initial supply of forms, instruction material and the GNMA Seller's Guide. It is imperative that responsible key personnel familiarize themselves with our requirements.

Your Loan Representative for home mortgages will be Mr. Russell P. Morrison, and Mrs. Esther O. Walder for multifamily mortgages. Please inform your personnel to direct all communications to the appropriate Loan Representative.

Sincerely yours,

K. A. DUNCAN.

SELLING AGREEMENT

THIS AGREEMENT, made and entered into by and between the undersigned MORTGAGE SELLER (herein called the "Seller") and the GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (herein called the "Association"), an association organized under an Act of Congress and existing pursuant to Title III of the National Housing Act.

WITNESSETH, THAT:

WHEREAS, the Seller is engaged in the business of selling residential or home mortgages and expects to make offers, from time to time, to sell such mortgages to the Association; and,

WHEREAS, pursuant to and in accordance with the said Title III of The National Housing Act, the Association is engaged in the business of purchasing residential or home mortgages and expects to consider offers, made from time to time, that it purchase such mortgages from persons and organizations which the Association agrees are acceptable as eligible sellers of mortgages and designates as such and which have entered into the numbered agreements hereinafter set forth; and,

WHEREAS, the Seller has heretofore requested the Association to agree that the Seller is acceptable as an eligible seller of mortgages and to designate the Seller as such and has heretofore consented to enter into the numbered agreements hereinafter set forth; and,

WHEREAS, the Association has heretofore consented to agree that the Seller is acceptable as an eligible seller of mortgages and to designate the Seller as such, upon the entry of the Seller into the numbered agreements hereinafter set forth;

NOW, THEREFORE, in consideration of the premises and the purchase of any and every mortgage hereafter purchased from the Seller by the Association and the agreement by the Association that the Seller is acceptable as an eligible seller of mortgages and the designation by the Association of the Seller as such, the Seller hereby enters into the numbered agreements hereinafter set forth and agrees to abide by and to be bound by all the terms thereof; and in consideration thereof and the sale of any and every mortgage hereafter sold to the Association by the Seller, the Association hereby agrees that the Seller is acceptable as such a seller and hereby designates the Seller as such; the said numbered agreements being as follows, to wit:

AGREEMENT 1. The Seller shall furnish to, and maintain in a current condition for, the Association, on forms furnished by or satisfactory to the Association, such corporate resolutions, powers of attorney, and other similar instruments and such evidence as to the genuineness of signatures as shall be required by the Association to establish to its satisfaction the complete validity of all contracts, assignments, and other instruments that may from time to time be executed by the Seller in connection with transactions under this Selling Agreement.

AGREEMENT 2. All offers to enter into contracts to sell and all submissions of mortgages except pursuant to contracts to sell heretofore executed, made hereafter by the seller to the Association, shall be made by virtue of this Selling Agreement and shall be made by the use of appropriate forms furnished or approved by the Association; and each such offer and each submission pursuant to such an offer shall be made, in all respects, in conformity with the Sellers Guide as it shall have existed as of the date of the Seller's offer, subject to any applicable contract to sell; and any such submission made otherwise than pursuant to a contract to sell shall be made, in all respects, in conformity with the Sellers Guide as it shall exist as of the date of such submission.

AGREEMENT 3. With respect to every submission pursuant to a contract to sell that the Seller shall make to the Association by virtue of this Selling Agreement, the price to be paid by the Association for each mortgage and the amount of the fees and other charges shall be determined in conformity with the Sellers Guide, including price information supplementary thereto, as it shall have existed as of the date of the Seller's offer, subject to the contract to sell; and with respect to any other submission, the price, and the amount of the fees and other charges, shall be determined in conformity with the Sellers Guide, including price information supplementary thereto, as it shall exist as of the date of submission; and submissions of mortgages by the Seller to the Association

for purchase by virtue of this Selling Agreement shall be preceded, when required by the Sellers Guide, by agreement reached between the Association and the Seller establishing such price and such amounts, with respect to each mortgage submitted.

AGREEMENT 4. With respect to every submission pursuant to a contract to sell that the Seller shall make to the Association by virtue of this Selling Agreement, each mortgage so submitted shall conform with the acceptability requirements and other provisions set forth in the Sellers Guide as it shall have existed as of the date of the Seller's offer, subject to the provisions of the contract to sell; and with respect to every such submission other than pursuant to a contract to sell, each mortgage shall conform with the acceptability requirements and other provisions set forth in the Sellers Guide as it shall exist as of the date of submission; and with respect to every mortgage submitted for purchase, the Seller, at the time of submission, shall present for consideration by the Association such documents, instruments or papers of any kind whatsoever, as the Association shall require in the Sellers Guide as it shall have existed or shall exist from time to time and as the Association shall otherwise require.

All documents, instruments or papers required by the Association shall conform in all respects with all the acceptability requirements and other provisions of the Sellers Guide as it shall have existed or shall exist as herein provided in this numbered agreement; but, except with respect to the matters contained in the agreements numbered 5 and 6 herein, this numbered agreement shall be deemed to have been complied with, with respect to any mortgage purchased from the Seller by the Association, on the disbursement of the purchase price.

AGREEMENT 5. The Seller hereby represents, for the reliance of the Association, that the Seller is not a State, territorial, or municipal instrumentality within the meaning of Title III of the National Housing Act, and that at the time of disbursement of the purchase price, each mortgage that the Association shall hereafter purchase from the Seller shall conform with the following requirements, to wit:

- (a) Each such mortgage shall be a residential or home mortgage,
- (b) Each such mortgage shall be either insured finally under the National Housing Act, as amended or guaranteed to the extent required by the Sellers Guide under the Servicemen's Readjustment Act of 1944, as amended; and the Seller shall have complied with all of the applicable provisions of the pertinent Act and the Rules and Regulations promulgated pursuant thereto; and the insurance or guaranty shall be in full force and effect,
- (c) Each such mortgage shall not be subject to any circumstances or conditions that the Seller shall be aware and have knowledge of, with respect to the mortgage or the mortgaged property or the mortgagor or his credit standing, that shall adversely affect the value or marketability of the mortgage or that can be reasonably expected to cause private investors in the secondary mortgage market to regard the mortgage as unacceptable for prudent investment or to cause the mortgage to become delinquent,
- (d) Each such mortgage shall not cover any property held by a State, territorial, or municipal instrumentality, and,
- (e) Each such mortgage shall not, in original principal amount, exceed or have exceeded the amount set forth in the Sellers Guide for each family residence or dwelling unit covered by mortgage.

AGREEMENT 6. The Seller hereby represents, for the reliance of the Association, with respect to each mortgage that the Association shall hereafter purchase from the Seller, that at the time of disbursement of the purchase price:

- (a) The Seller shall have good title to the mortgage and full right to assign and transfer it to the Association free and clear of all claims and encumbrances,

- (b) The Seller shall not have modified in any material respect and shall not have satisfied, cancelled, or subordinated in whole or in part the mortgage and shall not have released the mortgaged property in whole or in part from the lien of the mortgage, provided, however, that this representation shall be deemed not to have been made on the disbursement of the purchase price, with respect to any matter previously brought to the attention of the Association by letter acknowledged in writing or by express mention in the title evidence,
- (c) The mortgaged property shall be free and clear of all mechanics and materialmen liens or liens in the nature thereof, and no rights shall be outstanding that under law could give rise to such liens, provided, however, that this representation shall be deemed not to have been made on the disbursement of the purchase price, if title policy coverage or other comparable protection previously shall have been furnished protecting the Association against such liens and rights, and,
- (d) The improvements upon which the appraisal by the Federal Housing Administration or the valuation by the Veterans Administration shall be based shall lie wholly within the boundaries and the building restriction lines of the mortgaged property, and no improvements on adjoining property shall encroach on the mortgaged property, provided, however, that this representation shall be deemed not to have been made on the disbursement of the purchase price, if the Association previously shall have been furnished with a survey of the mortgaged property showing the location of the improvements and any encroachments either onto or off of the mortgaged property and also with title evidence expressly mentioning any such encroachments, or if the Association previously shall have been furnished with written notice acknowledged in writing of any such encroachments; and,

Except if they shall be deemed not to have been made as herein agreed in this numbered agreement, in the event that any one or more of the foregoing representations in this numbered agreement shall in fact be untrue, the Association may at its option tender the mortgage to the Seller for repurchase; and, without any adjustment on the basis of any fees or other charges borne by the Seller in connection with the original sale of the mortgage to the Association, the Seller shall thereupon within one month of the date of tender, pay to the Association the same percentage of the unpaid principal balance of the mortgage at the time of repurchase that the Association paid to the Seller for the original sale of the mortgage and shall pay, in addition, the accrued interest on the unpaid principal balance of the mortgage at the time of repurchase and the aggregate amount of any advances made by the Association pursuant to the terms of the security instrument and interest thereon at the rate borne by the secured obligation and, in addition, the aggregate amount of any attorney fees, court costs, legal expenses, and other expenses incurred or expended by the Association in prosecuting or defending any litigation in connection with preserving the lien of the security instrument; and tender of the mortgage under this numbered agreement shall be made by notice thereof and demand for repurchase in conformity with the agreement numbered 13 herein and concurrent advice from the Association of the amount required for the repurchase and of the nature of the misrepresentation; and the mortgage shall not be returned to the Seller until after receipt by the Association of the repurchase price.

AGREEMENT 7. With respect to each mortgage that shall be offered or submitted by the Seller to the Association for purchase by virtue of this Selling Agreement, either (a) the Seller shall itself be a servicer having an outstanding Servicing Agreement with the Association and shall consent to service the mortgage, or (b) the Seller shall proffer the facilities of a servicer having an outstanding Servicing Agreement with the Association, and such servicer shall consent to service the mortgage; and, in either instance, there shall be an office with servicing facilities satisfactory to the Association located within 100 miles of the mortgaged property.

AGREEMENT 8. Nothing in this Selling Agreement shall be construed as obligating the Association to purchase any mortgage from the Seller.

AGREEMENT 9. This Selling Agreement shall be deemed to be a part of every transaction completed otherwise than pursuant to a contract to sell heretofore executed whereby one or more mortgages are hereafter sold to the Association by the Seller and shall be deemed to be hereby incorporated in full by reference into any and all instruments evidencing any such transaction or the offer or acceptance pertaining thereto; and as to any such transaction, this Selling Agreement shall not be subject to termination except by the Association in writing expressly referring to this agreement by number and expressly terminating this Selling Agreement as to such transaction.

AGREEMENT 10. Upon the request of the Association, the Seller shall permit, at any time, the representatives of the Association to examine and audit any and all of its records or accounts pertaining to any mortgage sold to the Association by virtue of this Selling Agreement, or to the Seller's corporate structure, its stockholders, or its financial standing.

AGREEMENT 11. The term "mortgage" as used in this Selling Agreement shall be construed to include a security instrument, together with the obligation secured thereby, the title evidence, and all other documents, instruments, and other papers pertaining thereto.

AGREEMENT 12. All references herein to the Sellers Guide are to the Sellers Guide published and distributed by the Association as it shall exist from time to time and shall be construed to include all amendments and supplements thereto in any form whatsoever.

AGREEMENT 13. Notice, demand, or request in any case arising under this Selling Agreement or required by the provisions hereof or of the Sellers Guide as it shall exist from time to time or pursuant to any requirements of law, shall be in writing and may be served in person or by mail by depositing the same in any post office, substation, or letter box, enclosed in an envelope, postage prepaid, addressed to the party to whom such notice, demand, or request is directed, at the last known address of such party.

AGREEMENT 14. As to any mortgage or mortgages that shall be sold by the Seller to the Association by virtue of this Selling Agreement, this Selling Agreement may be assigned, in whole or in part, by the Association without the consent of the Seller but may be assigned by the Seller only with the consent of the Association, and when assigned in conformity with this numbered agreement, it shall inure to the benefit of and shall be binding upon the successors and assigns of the Seller and the Association.

AGREEMENT 15. Except as otherwise agreed in the agreement numbered 9 herein, this Selling Agreement shall be subject to termination at any time at the option of either the Seller or the Association by notice to the other in conformity with the Agreement numbered 13 herein.

IN WITNESS WHEREOF, the parties have hereunto set their hands on the dates hereinafter set forth.

Dated 2/2/72

EMERANQUE CAPITAL CORP.
MORTGAGE SELLER
By Frank J. Caruso
Corporate Officer
President
Title

Dated 2/2/72

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION
By Oliver J. McCarron
Authorized Signature
Oliver J. McCarron
Attorney in Fact

EXHIBIT 3**Correspondence Relating to the Acquisition of Capital Ventures, Inc., by Empire National Bank**

EMPIRE NATIONAL BANK,
New City, N.Y. July 10, 1971.

Re Capital Ventures, Inc.

Mr. JOSEPH E. ROBBINS,
Chairman of the Board, Arcs Industries, New York, N.Y.

DEAR MR. ROBBINS: This letter is intended as a memorandum of intent by this bank to acquire all of the outstanding stock of your wholly owned subsidiary, Capital Ventures, Inc., California and Arcs Mortgage Corp. of Florida.

Our offer is conditioned upon the following:

1. The gross purchase price shall be \$3,100,000. However, the net price to the purchaser after you have withdrawn \$800,000 in cash dividend shall be \$2,300,000.

2. The price shall be paid in all cash as follows:

(a) \$230,000 on the signing of a formal written agreement;

(b) \$1,745,000 on closing;

(c) \$325,000 to be placed in escrow as hereinafter provided.

3. Of the purchase price \$325,000 shall be placed in escrow with the seller's attorney to be deposited in an interest bearing account in this bank and is to be held subject to the following conditions:

(a) In the event that the net earnings, after taxes, but prior to any extraordinary items computed in accordance with generally accepted accounting practices, for the two years ending December 31, 1973, shall be less than \$400,000 the bank, as purchaser, shall be entitled to a return of a portion of the amount held in escrow. Such return shall be determined by the escrowee who shall distribute to the bank an amount equal to the total dollar amount by which the earnings are less than \$400,000 as defined in the previous sentence.

(b) In the event that the net earnings, after taxes, but prior to any extraordinary items computed in accordance with generally accepted accounting practices, for the two years ending December 31, 1973, shall be in excess of \$450,000, you, as seller, shall be entitled to 50% of the total dollar amount by which such earnings exceed \$450,000 as defined in subparagraph "a" above.

4. The agreement shall contain such additional representations, warranties and conditions with respect to (i) unaudited statements of Capital Ventures, Inc. as of May 31, 1971 which reflect stockholder's equity of \$1,595,000 prepared in accordance with generally accepted accounting principles; (ii) the seller's liability for claims against and liabilities of the Company and its subsidiaries prior to the date of closing and not included as liabilities in the unaudited consolidated financial statements of Capital Ventures, Inc. which claims and liabilities shall survive delivery of the stock and payment therefor; (iii) that the aggregate principal balance of mortgages serviced by the Company and its subsidiaries is presently in excess of \$62,000,000 and will exceed \$60,000,000 at closing; (iv) there shall be no substantial change in the financial condition of the Company between May 31, 1971 and the date of closing; (v) the only contractual obligations of Capital Ventures, Inc. and its subsidiaries with employees are (A) with Edwin Katz, expiring January 1, 1974, at an annual compensation of \$56,000 plus cost of living increase each January based upon New York City rates, and (B) with three other officers, expiring in May 1972, which contracts provide for annual compensation aggregating \$93,000 with provisions for annual increments and/or bonuses; (vi) servicing contracts with investors providing for cancellation upon payment of a penalty which cannot be cancelled because of the change in stock ownership of Capital Ventures, Inc. and its subsidiaries; (vii) there are no other contracts enforceable against the Company or its subsidiaries involving an annual obligation of \$10,000 or more for a term in excess of one year from the date of closing except: That Capital and its subsidiaries are obligated under leases for office space and equipment rentals which provide for annual rentals of \$126,500, plus real estate tax and operating expense escalations for the office space; the leases expire principally in 1981; (viii) dividends declared subsequent to February 28, 1971 shall not exceed the \$800,000 previously mentioned of which \$500,000 was paid prior to May 31, 1971.

The final contract shall contain such other terms and conditions as the parties shall mutually agree upon.

The Bank shall have the right to take title to the above shares either in its name or in the name of its nominee.

This letter of intent is delivered upon the understanding that the foregoing acquisition by this bank shall be subject to approval of regulatory authorities and both your Board and the bank's Board of Directors.

Very truly yours,

JOHN PAYNE, Jr.

ARCS INDUSTRIES, INC.,
July 21, 1971.

Subject: Capital Ventures, Inc.

Mr. JOHN H. PAYNE, Jr.,
Chairman, *Empire National Bank*,
New City, N.Y.

DEAR MR. PAYNE: I am pleased to sign and return a copy of your memorandum of intent dated July 19, 1971.

I note the change to paragraph 3b and request your consideration for a change to paragraph 3a which would permit the release of the full \$325,000 escrow if the two year net earnings "including" extraordinary items equal or exceed \$400,000.

This would be consistent with the spirit of the intent to protect the net worth part of the deal while excluding Arcs from benefitting from any extraordinary gains that would raise the net earnings above \$400,000.

I have signed the letter as written and am suggesting this change because I think it follows our understanding of the transaction. My excuse for bringing this up now is that we didn't really leave enough time on Monday to read each word of the memorandum . . . i.e.; the "error" in paragraph 3b.

I am forwarding, under separate cover, a preliminary draft of the purchase agreement that we had prepared (with minor changes to reflect our understandings) for our other deal.

Very truly yours,

JOSEPH E. ROBBINS.

EMPIRE NATIONAL BANK,
New City, N.Y., July 21, 1971.

Mr. JOHN D. GWIN,
Deputy Comptroller of the Currency,
Main Treasury Building, Washington, D.C.

DEAR MR. GWIN: This is in reference to the requirement of Paragraph 7376 of the Comptroller's Manual For National Banks that the approval of the Comptroller of the Currency be obtained by a National Bank prior to the acquisition of an operating subsidiary corporation.

Empire National Bank has entered into an agreement in principle with Arcs Industries, Inc., 100 Park Avenue, New York, N.Y., to acquire all of the outstanding shares of Capital Ventures, Inc., a wholly-owned subsidiary corporation. Capital Ventures is a New York City based mortgage company whose operations consist of the origination, sale and servicing of mortgages, principally in the States of New York, Florida and California. Its business activities may be described generally as those of a traditional mortgage company and, therefore, a part of the business of banking or incidental thereto. It is intended that Capital Ventures be operated under its present management as a wholly-owned subsidiary of Empire National Bank.

The agreement of intent provides for an all-cash transaction with gross purchase price amounting to \$3,100,000. Following payment of cash dividends totalling \$800,000 the net purchase price of \$2,300,000 is to be paid as follows:

- (a) \$230,000 on the signing of a formal written agreement; and
- (b) \$1,745,000 on closing, of which \$325,000 is to be placed in escrow as hereinafter provided.

The amount placed in escrow is to be deposited in an interest-bearing account at Empire National Bank and held subject to the following conditions:

- (a) In the event the net earnings of Capital Ventures, after taxes, but prior to any extraordinary items, computed in accord with generally accepted accounting practices, for the two year period ending December 31, 1973, shall be less than \$400,000 the Bank, as purchaser, shall be entitled to a return of a portion of the amount held in escrow. The amount returned shall be determined by the escrowee who shall distribute to the Bank an amount equal to the total dollar amount by which the earnings are less than \$400,000 as defined in the previous sentence.

(b) In the event the net earnings of Capital Ventures, after taxes, but prior to any extraordinary items, computed in accord with generally accepted accounting practices, for the two year period ending December 31, 1973, shall be in excess of \$450,000, Arcs Industries, as seller, shall be entitled to 50% of the total dollar amount by which such earnings exceed \$450,000 as defined in subparagraph "a" above.

The formal agreement will contain certain additional representations, warranties and conditions with reference to: (1) unaudited statements of Capital Ventures as of May 31, 1971, which reflect stockholder's equity of \$1,595,000 prepared in accordance with generally accepted accounting principles; (2) the seller's liability for claims against the liabilities of Capital Ventures, and its subsidiaries; (3) the aggregate principal balance of mortgages serviced by Capital Ventures, and its subsidiaries; (4) no substantial changes in the financial condition of Capital Ventures between May 31, 1971 and the date of closing; (5) contractual obligations of Capital Ventures and its subsidiaries with employees; (6) servicing contracts with investors; (7) other contracts enforceable against Capital Ventures or its subsidiaries, and (8) dividends declared subsequent to February 28, 1971 not to exceed the \$800,000 previously mentioned of which \$500,000 was paid prior to May 31, 1971.

The formal contract is to contain such other terms and conditions as agreed upon by the parties. The acquisition by Empire National Bank is to be made expressly subject to approval of appropriate regulatory authorities.

It is requested that Empire National Bank be granted the approval of the Comptroller of the Currency to acquire all of the outstanding stock of Capital Ventures, Inc. If further information concerning the proposed transaction is required, please let us know and we will supply it promptly. A public announcement is to be made today and it is our hope to complete the purchase during the month of August.

Very truly yours,

JOHN H. PAYNE, Jr.,
Chairman of the Board.

EMPIRE NATIONAL BANK,
Newburgh, N.Y., August 6, 1971.

Mr. LARRY T. GERZEMA,
Assistant Chief National Bank Examiner, Office of the Comptroller of the Currency,
Main Treasury Building, Washington, D.C.

Dear Mr. GERZEMA:—

This is in reference to our telephone conversation of August 5, 1971 concerning the proposed acquisition by Empire National Bank of all of the outstanding shares of Capital Ventures, Inc., a mortgage company.

In accord with your request please find enclosed copies of the following documents:

1. Consolidated balance sheet of Capital Ventures, Inc. and subsidiaries as of February 28, 1971 and related statement of income and retained earnings and statement of changes in financial position, certified by Peat, Marwick, Mitchell & Company on May 11, 1971; and

2. Letter from Mr. Joseph E. Robbins, Chairman of the Board, Arcs Industries, Inc. to Mr. John H. Payne, Jr., Chairman of the Board, Empire National Bank, dated July 21, 1971 with enclosure (memorandum of intent, dated July 19, 1971, signed by Mr. Robbins and Mr. Payne); and

3. Draft of stock purchase agreement between Arcs Industries, Inc. and Empire National Bank, dated July 21, 1971.

You will note in our letter to Mr. Gwin of July 21, 1971 the statement that \$325,000 of the purchase price is to be placed in escrow and deposited in an interest-bearing account at Empire National Bank. This amount is to be placed in escrow subject to the conditions outlined; however, the monies may or may not be held at Empire National Bank. This point will be discussed further and agreed upon by the parties.

The question of appropriate amortization of the premium being paid to Arcs Industries, Inc. has been taken up with our external auditors, Peat, Marwick, Mitchell & Co. We will advise you promptly upon receipt of their recommendations.

If you desire any further information concerning this proposal, please let me know.

Thank you for your call and your kind assistance.

Very truly yours,

JOHN NICOLL.

AUGUST 19, 1971.

Mr. JOHN H. PAYNE, JR.,
Chairman of the Board, Empire National Bank,
New City, N.Y.

DEAR MR. PAYNE: This is in reference to your letter of July 21, 1971, and subsequent correspondence to this Office concerning the bank's proposed acquisition of Capital Ventures, Inc. You request permission to purchase 100% of the outstanding stock of Capital Ventures, Inc. and to operate the company as a subsidiary of the bank under the provision of Paragraph 7376 of the *Comptrollers Manual for National Banks*. The company is engaged in the business of making, selling and servicing real estate mortgages.

Pursuant to your request, approval is hereby granted for the acquisition of all of the outstanding stock of Capital Ventures, Inc. and to operate the company as a subsidiary of the bank.

It is our understanding that you have not yet made a determination as to the capitalized value of the mortgage servicing contracts. If the mortgage servicing contracts are to be capitalized, we request that the contracts be amortized on the books of the bank at the same rate that is permitted for Federal Income Tax purposes. In the event that the mortgage servicing contracts cannot be depreciated for tax purposes, we request that they be amortized on the books of the bank over the average life of the mortgages, but not to exceed 12 years. However, it must be understood that the capitalized value of the mortgage servicing contracts will be subject to a continuing review by our examiners and that additional writedowns may be required based on the financial condition and earnings record of the subsidiary.

Our approval does not constitute an appraisal either favorable or unfavorable as to the value of Capital Ventures, Inc. as such appraisal is the responsibility of management and Board of Directors.

Very truly yours,

JOHN D. GWIN,
Deputy Comptroller of the Currency.

HOUSING HEARINGS

THURSDAY, MAY 4, 1972

U.S. SENATE,
SUBCOMMITTEE ON ANTITRUST AND MONOPOLY,
COMMITTEE ON THE JUDICIARY,
Washington, D.C.

The Subcommittee on Antitrust and Monopoly convened in room 1202, New Senate Office Building, at 9:30 o'clock, Hon. Philip A. Hart presiding.

Staff present: Howard O'Leary, chief counsel; Jack Blum, assistant counsel; and Peter M. Chumbris, chief minority counsel.

Senator HART. We are delighted to open the hearings this morning by having one of the most distinguished and able Members of the Senate, the senior Senator from the State of New York, the Honorable Jacob Javits.

We will be delighted to hear from you, Senator.

STATEMENT OF HON. JACOB K. JAVITS, SENIOR SENATOR FROM THE STATE OF NEW YORK

Senator JAVITS. Thank you very much, Mr. Chairman.

I greatly appreciate the kindness and the consideration.

Mr. Chairman, at the outset I would like to urge the committee in respect to the matter which it is investigating to have clearly in focus the underlying factors which have brought housing in New York to the brink of disaster; while, at the same time, investigating specific abuses which relate to existing Federal and local programs.

My reports are that the committee's staff has done a very important and very thorough job in looking into collusive and unlawful housing funding schemes. There is no question about the fact, Mr. Chairman, that these conditions must be eliminated insofar as we can eliminate them, and the guilty parties purged from the Federal programs.

We probably need to tighten up our legislation or administrative practice in all of our programs.

Representing my State and the largest, and probably the most troubled city in the country, I must add this very critical point—and if I leave nothing else with the committee, I hope I will leave this.

That is the fact that we do not want to so operate as to immobilize or abort the housing programs which are now ongoing and producing needed housing. This is critically important.

I have used the example before of the veterans housing program which followed World War II. The fact is that an enormous amount of skulduggery was found in respect of that program—a great many people went to jail, as well they should have—and it was a scandal of colossal proportions. But the housing did get built, and those houses have not been dismantled or torn down.

Mr. Chairman, the same is true today. There is grave danger that in the course of a perfectly proper sense of outrage that exists about excesses and about crimes against the public interest, which may have been committed two things will happen, and they are: first, honest men will be frightened off of any of these programs and will not go near them; and, secondly, our own viewpoint here in the Congress will be so distorted by what we have found that we will miss the main point, and we will end the programs out of a sheer sense of outrage.

I hope, because I know the chair so well and I can speak from very personal experience, that the vision of the chair and my own and those of the rest of us who see this problem in terms of families shivering in the winter and rat holes with falling plaster and children eating lead paint or camping in abandoned buildings—and let me say that we have tens of thousands of those in our city, unhappily—will constantly inspire us to punish the miscreants, but not to kill the program.

I think, Mr. Chairman, there is nothing that I could say from my particular vantage point of representing New York more important than that. You will get much of the same information that I can give you from many people. But this major point that I hope the committee will have constantly before it can, perhaps, come uniquely from a person like myself.

Senator HART. If I could interrupt you. It is your counsel that is welcome, and we have not heard it yet, but it is so true. You can relate it to the problems we have in fighting off attacks and proposals to dismantle the War on Poverty.

There are chislers, there are abuses, but let us not stop waging the war on poverty. We can see it, in effect, in your effort to reach the point where we have a minimum family income. You cannot do that because somebody is cheating on the inadequate welfare fund.

This is exactly what you counsel us to be aware of and to fight off when we are talking about thoroughly decent proposals to provide housing for people in this country.

The fact that somebody chisels on that program does not mean that we should not continue to provide that housing for those who need it. That is exactly the situation.

Senator JAVITTS. Exactly right, Mr. Chairman, and may I add just one other word, from the Chair's business experience and mine. This does not mean that to make a profit is immoral or *prima facie* illegal.

We are grateful to those who have brought the benefits of modern science and technology to all of us in the way of mass production and distribution which no nation has ever attained on earth. And we are delighted that they have a profit, and we hope the profit is used intelligently.

I know the chair, and I have no doubt of the chair's views on this subject. But I think the standard needs to be erected and the point made and a caveat always introduced in any findings, no matter how drastic, and no matter how seamy the situation described, that this is an essential program and it has to continue. And we have to find procedures and people who will carry it out with decency.

Mr. Chairman, another point I wish to leave with the chair is that whatever may be our problems with many of these programs we find—and I am flanked here by both Mr. Less who manages our New

York office, who has had an enormous experience in this matter, and Mr. Warren, who has very much the same functions in the Washington office, that the programs, unhappily, which are subject to perhaps the most abuses, to wit, the sections 235 and 236 programs, are the programs which are the most stimulating in terms of the construction of new housing.

We have had more success with getting people interested in putting up homes or in rehabilitating homes with the aid of a partial governmental subsidy, such as is represented by the 235 and 236 programs, than we have with anything else.

Somehow or the other, the private entrepreneur is greatly attracted by that element in a housing plan.

Finally, I would like to give the committee some deep feeling as to the relatively small dent which has so far been made by everything we have done.

The unbelievable, colossal nature of the problem, is pointed out by the estimated one-half million housing units in New York City alone which are considered to be completely obsolete and not fit to live in, which is probably somewhere near a quarter to a third the total housing stock. There are perhaps another third of the units in the city on the ragged edge, as we see it, in the neighborhoods which border upon neighborhoods already utterly devastated.

Let us take, Mr. Chairman, a place called Brownsville, in Brooklyn. If you went through there, you would think you were going through an area of the Berlin blitz immediately after the blitz. And this is not very far from the center of the largest and the richest city in the world, with central real estate assessed in excess of \$20 billion.

Mr. Chairman, it is inconceivable to me that the owners of that \$20 billion real estate simply cannot realize it will not last and it is bound to be engulfed in the same sea of mud in which these relatively close-in devastated areas have already gone.

We see situations in which people literally camp in abandoned buildings. I have gone through them myself time and again, and they are without heat in the middle of winter or other essential services. However, they simply cannot go anywhere else, and they must accept literally the worst of which our Nation is capable of offering them in terms of housing because there is no other course.

Now here is the overwhelming situation that we face to underline what I mean when I say at one and the same time we find the rascals, we had better not dam up the flow. We have a vacancy rate in New York of less than 1 percent. From 18,000 to 30,000 units a year are abandoned, and when I say "abandoned", that means the landlord simply walks away.

He owns a piece of property, he abandons it, and would like to forget it as quickly as possible, and simply turns his back on it and, generally speaking, it falls to the drug addicts and pyromaniacs of various kinds. And it becomes not only a shambles and a hulk very soon, but literally a nesting place for thieves.

Our production levels fall short, seriously short of our annual housing stock losses. We have inadequate relocation resources, so families forced out of structures in order to create new structures immediately fall into a very depreciated condition in terms of their living surroundings.

We have widespread deferred maintenance by property owners which has devastated neighborhoods and has caused rapid disintegration in heretofore stable communities.

Mr. Chairman, every one of these communities at one time has been stable. I represented a district, Mr. Chairman, called Washington Heights, which is on the beautiful part of New York City, right on the Hudson River. This is probably the most beautiful part of the city with some of the finest cultural institutions in the world, centering around Morningside Heights, which has Columbia and Union Theological and many other institutions, and also connected directly by the corridor or the major street known as Broadway with the medical center, so-called Presbyterian "Harkness" Medical Center.

This whole area is going and going fast, only because there seems to be no ability to stem the tide. Housing is sound. It has an excellent population, a good deal of which it is losing now. But in this case, deterioration breeds deterioration without any way to stop it thus far.

Then we have other problems, which you are looking into, and that is the inability by many thousands of property owners to obtain refinancing of any kind in vast sections of the city, and, in some cases, only at exorbitant rates unsupportable by revenues.

And coupled with that, there is the inability of conventional financing to support improvements, rehabilitation or maintenance of multi-family dwellings in most sections of the city. Also, spiralling interest costs, and construction costs producing rents of \$75 to \$85 per room, when unsubsidized, and very poor management and maintenance because rent rolls simply do not cover an incompetent or indifferent property ownership which is on the edge of abandonment.

And the property damage is a big problem, and tenant abuse is a big problem.

I have seen marvelous public housing projects damaged in the most wanton way by those who occupy them because of their deep hangups about the fact that nothing is worthwhile and everything is a disaster.

We believe that the major way in which there can be a change in the situation is in the following:

First, by cleaning up the programs in terms of those who abuse them without, at the same time, penalizing those who would use them well. And, as a matter of fact, we hope very much that the committee will use its power to bring some of those people together, and to reinterest them in housing.

Let me give the committee an example of that. Incidentally, Mr. Chairman, I am not following this statement particularly, so I ask unanimous consent that it be made part of my remarks when I finish. I will only be another 2 or 3 minutes more.

Senator HART. There is no time problem, Senator.

Senator JAVITS. I thank my colleague.

We have tried, for example, to bring the banks together, the savings and separately its commercial lending organizations, in order to induce them to enter into major projects in New York City. And we have ongoing right now a program by which a group of savings banks in New York City will be responsible for a pilot operation of 5,000 new homes as a group in order to add that much to the housing stock—totally new—nothing contemplated now as a cooperative, but a public-interest venture.

Mr. Allee has had a great deal to do with that. We are also going to try to do the same thing with the commercial banks.

A great effort needs to be made in New York to stimulate the business community. I know that Senator Hart's home city of Detroit has the same problems we have with the exception of the breakthrough made by the Henry Ford-Max Fisher plan now in Detroit, which is most admirable.

There has not been nearly the movement by the business community in Detroit or in New York which characterizes the best results in places like Philadelphia, Boston, Pittsburgh, San Francisco, to just take a few cities.

Again, I think the committee can highlight the virtue of all of those experiences in an affirmative encouragement to the better elements of the community to do this kind of a job. And the committee—as we have seen in the Labor Committee in connection with the strikes and other problems—can itself be a very fruitful and constructive stimulator to affirmative action, at one and the same time that it is investigating a situation generally on the negative side.

Another area that we think needs great stimulation are the insurance companies. They have a so-called \$2 billion fund to finance multifamily projects and to sponsor massive rehabilitation projects.

We think that it leaves very much to be desired and has fallen very far short of what the insurance companies said they were going to do.

Again, there is no point to beating them with a stick. The effort should be to try to stimulate them to move into the field with assurance. And, incidentally, it is my judgment that particularly in anti-trust committees like this one they are in a position to be very encouraging along that line.

I think that our job is twofold. One, it is to clean up the programs with the idea of encouraging, not discouraging, the Congress to support them even more than they have, because that is what the situation demands.

Second, Mr. Chairman, we have to give a sense of assurance to the honest and public spirited people in the private enterprise field, both profit and nonprofit, in order to induce them to make the major contribution that is needed.

Another matter which interested me very greatly, which may or may not come under this committee's jurisdiction, is the possibility of a housing trust fund modeled after the highway construction fund.

Incidentally, that is a proposal made to the many of us by the construction trades which deserves attention, Mr. Chairman. Also on the governmental level, a domestic housing bank in which the cooperative power of government credit and good faith of the United States can back up low-interest financing deserves study.

I might point out that we did that in New York without a State guarantee, but simply by pooling mortgages and putting them out under a State backing with the implication of a good-faith credit. And we got \$1 billion worth of housing in addition to anything else produced.

Now, I have introduced legislation respecting this matter, as have other members. But the key points, Mr. Chairman, I have already

made in respect to this highly difficult proposition, and I would like to close as I began.

Our job is to expose the abuses and to correct the abuses. And the idea with which we should be doing these things is to stimulate even greater support in the Congress for the programs which work, and a sense of confidence on the part of the business community that honest men and honest interests are anxious to do a job and to earn a reasonable profit, and they will be encouraged and, indeed, protected by our work and our activities, rather than harmed by them or made suspect as a result of our inquiry.

I thank you, Mr. Chairman.

Senator HART. Well, as always, Senator Javits, you in a very brief time and in your usual fashion have hit all the elements which are in competition in the area we are trying to review.

I really do more than simply thank you for highlighting and dramatically putting in this record the problems in Metropolitan New York itself.

I owe you an explanation as to why the Antitrust Committee seems to be in the business of reviewing HUD construction programs. That is not—and ought not to be—our jurisdiction. Inevitably, though, as we do the work, we have to get figures in terms of the experience in the marketplace which involve these abusive practices, but which are not the purpose of our hearing.

We are trying to find out to what extent the market structure, itself, contributes to either the inadequate new housing supply with production problems, pricing practices, and availability and so on.

Here, we have a legitimate and separate base—the business of red-lining, to what extent our financial institutions and finance companies are involved in this red-lining.

Are there any operations which inhibit the production and contribute to the speculator who gets interim financing from a mortgage company on the condition that he will put the mortgage through the same company when he sells it at a grossly inflated price to a person who ought not to be putting that kind of money into that housing?

That is the sort of thing we began to explore in these hearings. We find inescapably we get into the chapter and verse, the day-to-day experience that you are talking about and in which you are quite right. These gross abuses can be seized upon by anybody who wants to make the argument that you are wasting money to try and help the poor in any way because something like this always happens, so throw the program out.

We say, “Administer the program more effectively, blow the whistle on the program, but do not dismantle an effort that does basically make good sense.”

To that you have addressed yourself eloquently.

Senator JAVITS. Thank you, Mr. Chairman.

Let me add one other thing, Mr. Chairman. Both of us are sophisticated in terms of American business practices. The banks, the insurance companies to which I refer have vast amounts of the public's money. They have great responsibilities to the public.

There are some of these areas that are so bad that they should put no money in them, where they would simply be robbing Peter to pay Paul, and that is where the Government comes in.

If we can shore up those areas, if we consider it socially desirable that they go into those areas, we have to make it possible with a full understanding of their problems, too.

They are not simply barons sitting on the top of heaps of the money. They are sitting on the public's money. That kind of money that we are talking about is, except very rarely, no longer private. It is public money. I know the Chair, with the Chair's experience, and this committee will have that very clearly in mind as well. We simply have to create the conditions under which the size of investment which is urgently required and the amount of enterprize which is urgently required can be honorably expended without jeopardizing the money of the millions who have entrusted their moneys to these banks and insurance companies.

Senator HART. Thank you very much.

Mr. CHUMBRIS. Mr. Chairman, may I thank Senator Javits on behalf of Senator Hruska and the other minority members of this committee. Your statement focused on the same problem we have heard many times, do not burn down the house to get out the rats.

Sometimes it sounds like a saying without any thought behind it, but it is very significant.

There is one point that you referred to that Franklin Thomas, who is head of the Bedford-Stuyvesant project in New York, pointed out that they have a \$65 million fund to work with and in the 3 years that they have been operating, the highest that they have given out is \$4 million. And one of the problems they point out is the system of the real estate broker using a mortgagee who is able to get the FHA loan a little bit faster, or the people are not aware of the effort of the Bedford-Stuyvesant program.

And if something could be done to improve the ability of these conventional organizations that are there for the purpose of helping these people, then perhaps some of the problems we are facing today would not have been before us.

Senator JAVITS. Thank you very much. We, too, have suffered from the bureaucratic delays and the seeming inability of officials to get untangled from their own feet. And this is a real problem.

Again, I know that Senator Hart, and I am sure the committee will lay on, with an even hand, whether it is Government or the private sector, whichever is involved.

I thank the chairman very much.

Senator HART. We thank you again.

(The full prepared statement of Senator Javits follows. Testimony resumes on p. 260.)

Mr. Chairman, I welcome this opportunity to share with this Committee my views on the intolerable housing crisis which grips New York City and to perhaps provide some perspective on various aspects of this extremely complicated problem of particular relevance to these hearings.

At the outset I would urge this committee not to lose sight of the underlying factors which have brought housing in New York to the brink of disaster for low and moderate income families in its focus on specific abuses related to existing federal and local programs. I commend the Committee staff, in this regard, for its thorough investigation of collusive and unlawful housing finance schemes. These conditions must be eliminated and guilty parties purged from federal programs. Procedures must be established, either by legislation or administrative order to tighten controls over programs which were intended by Congress to serve the poor—not profiteers; the FHA programs must be overhauled in order to provide effective internal controls and to screen out unscrupulous operators.

Notwithstanding the above, I submit that total and immediate cleansing of the federal housing programs will not even make a dent in alleviating the tremendous housing shortage in New York City or the really underlying problems which have brought on a near catastrophic situation. I would hope, therefore, that the Committee's serious deliberations into scandals and abuses will not serve to abort or minimize the federal presence in the housing field—but rather to make it more effective. I am concerned in this regard that the critics of federal housing, of which there are many, will exploit your work in order to seek to get the federal government to renounce the residual responsibility to provide a decent shelter for every American. This would, in my view, be a tragedy with grave implications for the future stability of our entire society.

Recent emphasis has been increasingly placed by government bodies on symptoms of the underlying housing crisis, e.g., scatter site housing policies, Sections 235 and 236 abuses, the void in management/maintenance programs, the performance of non-profits in housing and the appropriateness of tax shelters, etc. But few people have been willing honestly to face the core issue, to wit, *the total inadequacy of the federal commitment to house Americans who are unable to provide for themselves*. In New York City this neglect threatens the collapse of the City as a livable environment for millions of families. Entire communities, such as Brownsville (Brooklyn) are utterly devastated, yet hundreds of thousands of families still live there. In other areas, such as East Harlem and the South Bronx, families must endure squalid tenements without heat or other essential services even in the winter. They are the victims of lead poisoning, diseases *directly* attributable to unsanitary health hazards—and of rats. Hundreds of thousands of old people are trapped in unsafe, decaying apartments and face rent hikes which they simply cannot afford. Unfortunately, while debates over the housing programs rage in Washington, pathetically little housing has ever been produced or rehabilitated in the depressed communities of New York during the past ten years.

The crisis has spread rapidly to the hardworking middle income families of New York City. These families are fleeing New York, against their will, because of the lack of decent, reasonably priced residential housing and the unchecked deterioration of existing housing stock. Entire pivotal neighborhoods, which once represented the backbone of the City and a haven for the upwardly mobile middle class of all ethnic persuasions, have rapidly entered into the vicious cycle of abandonment. *And nothing is being done about it.*

My prognosis, based on extensive investigations of the housing conditions in New York over the past two years, is that the situation is terminal unless imaginative and bold steps are taken by a new partnership of public/private interests backed by a massive infusion of federal and private funds.

I have been forced during the last several years to devote a great deal of my time to the housing crisis on the local level and, in all candor, I must admit that my efforts have not yet been particularly fruitful. This is the almost overwhelming situation we face in New York:

1. A vacancy rate of less than 1%;
2. Abandonment of between 18,000–30,000 units per year;
3. Production levels which fall far short of annual housing stock losses;
4. An inadequate supply of relocation resources, thereby forcing families into substandard and poorly maintained tenements;
5. Widespread deferred maintenance by property owners which has led to the devastation of entire neighborhoods and which has caused rapid disintegration in heretofore stable communities;
6. An inability by many thousands of property owners to obtain refinancing of any kind in vast sections of the city and, in some cases, only at exorbitant interest rates unsupported by revenues;
7. The almost total inability of conventional financing to support improvements, rehabilitation or maintenance of multi-family dwellings in most sections of the city;
8. Spiralling interest costs and construction costs which produce, when unsubsidized, rents of \$75–\$85 per room; and
9. Extremely poor management/maintenance services because of (a) rent rolls unable to cover maintenance and provide reasonable profits for property owners; or (b) incompetent or indifferent property ownership; and (c) tenant abuse.

The root causes of these conditions are largely traceable, in my opinion, to the totally inadequate funding of government housing programs (in particular the public housing and Section 236 subsidy program) and completely arbitrary and unrealistic federal statutory cost limits and criteria relative to the New York

City market. (In particular, the Section 235 homeownership program, the subject of considerable abuse in Detroit, has never been utilized in New York City because of its rigid mortgage ceilings).

Related underlying causes of the City's housing debacle are the following:

1. Inefficient and frequently inept performance by government housing agencies on all levels and a lack of effective coordination between federal, state and local housing entities with each other or with the business community.

2. The disinterest of the business community in low or moderate income housing relative to other investment opportunities and the lack of incentives for private investment in housing by responsible private entities.

3. The steady withdrawal of traditional lending sources from housing investment in both depressed and transitional neighborhoods, leading directly to exorbitant financing costs (if financing is at all available) for new construction and rehabilitation projects and deferred maintenance.

4. Almost out-of-control labor and materials costs.

5. The inadequacy of management/maintenance services.

6. The absence or inadequacy of preventive programs to curb deterioration and to upgrade existing structures.

7. The disinclination of private builders and financial institutions to become involved with city bureaucracies and community problems.

Much of my recent attention has been focused on the lack of involvement by New York City's financial community with housing for low and moderate income families. My investigations have uncovered, as I believe your staff will confirm, that traditional lending sources are simply not making new monies available for repairs or refinancing existing due mortgages except on a piecemeal basis. In fairness, this practice can be justified from a prudent investment standpoint in many of New York's most depressed and devastated areas where the banks have been severely burned. On the other hand, I find that this pervasive negative attitude has spread a transitional neighborhoods of New York City and that, in fact, institutional disinvestment has been a major factor in the deterioration of such communities.

I further find that many of the New York banks have shown a disinterest in or a lack of understanding of federal housing programs until very recently. There are instances where individual institutions have aggressively sought to find ways to check deterioration of buildings on which they hold mortgages, and a few of these efforts appear to have been successful. In general, however, there is considerable inertia within the financial community.

In particular, the much publicized \$2-billion mortgage pool sponsored by the life insurance companies has been used sparingly for conventional or federally insured housing programs in New York City. The industry's lack of commitment to New York, where some of the largest companies are based, has been a great disappointment to me. The commercial banks, with their huge pool of assets, have been willing to make relatively riskless construction loans but have avoided long term lending, conventional or FHA insured, or significant involvement in the development process where their resources could have important impact.

In April, 1971 after a four month investigation by my New York office, I submitted a series of recommendations for increased involvement by the financial institutions in New York City's housing crisis, and I submit that memorandum as a part of this Committee's record. Eleven specific recommendations were made to the financial institutions, including establishment of a \$2-billion fund to finance multi-family projects for low and moderate income families, sponsorship of massive rehabilitation programs, the assumption of a development role for low and moderate income housing projects, the establishment of a \$50-million fund to provide moderate rehabilitation loans in areas threatened by abandonment, and many other proposals.

The response to date has been less than I had hoped: After considerable negotiation, the Savings Banks Association of New York State offered in good faith to undertake the development of 5,000 units of new construction within New York City subject to the allocation of special and vital federal subsidies. This offer, in my view, is a very significant one which I am presently pursuing with HUD, but it may very well be that the acute shortage of federal subsidy funds will make this project unfeasible. It is also significant, however, that the savings banks were extremely reluctant to make major commitment in the areas of refinancing and repair of existing housing stock on any large scale without benefit of FHA insurance to reduce risk. Unfortunately, although specific proposals to provide such financial protection are now pending before Congress, existing FHA tools do not appear to be adequate for moderate rehabilitation/refinancing purposes.

The New York City commercial banks are also undertaking an extensive study of key transitional neighborhoods in New York to determine how they might more effectively address the problem of abandonment and deteriorating neighborhoods, but, as yet, no specific proposals for action have been proposed.

In my opinion, the predicament with respect to the basic issue of financing can only be faced in one of three ways: (1) the nation's financial institutions need to devote a proper portion of their assets to financing at reasonable cost of housing for low and moderate income families, (2) they must be assured of the necessary incentives or insurance and government cooperation to protect against excessive loss, or (3) the government must take drastic measures to provide financing of our housing needs through alternative means. With respect to the latter, I would urge consideration of the following financing devices: (a) a housing trust fund approach modeled after the highway construction fund (a proposal offered by the construction trades); or (b) a Domestic Housing Bank which, through the sale of treasury bonds backed by the full faith and credit of the U.S. Treasury, would provide a steady flow of resources for the long-term financing of housing.

As a second major, and related initiative, this year I have sought to encourage the development of a national policy and strategy which would focus talent and resources on the preservation and upgrading of existing housing stock in older cities of this nation. It is my firm belief that the battleground is now in critical transitional neighborhoods of these urban centers which typically have been economically and racially mixed and which house the working class poor and moderate income families. My evaluation of these neighborhoods, which has gone on for months, has resulted in two specific proposals. The first was S. 3132 introduced on February 7, 1972, which proposed a comprehensive neighborhood preservation approach designed to upgrade such neighborhoods and to interest private investment through the use of FHA insurance and related shallow subsidies for refinancing and repair of existing housing stock. Although certain features of this bill were incorporated into the 1972 Housing bill passed by the Senate on March 2, 1972, my attempt to promote a total comprehensive attack on this critical problem was not preserved.

On a second front, I have sought to explore with HUD whether its existing FHA insurance programs might be directed toward major programs of neighborhood preservation involving, specifically, the availability of FHA insurance for refinancing and moderate rehabilitation purposes. To date there has been interest but no action with respect to my recommendations.

Only by continuing the present programs even while we expose the abuses and by continuing to look for new programs which will aid in dealing with the total housing problem can we keep our commitment to the American people to provide a decent home for all.

Senator HART. Our next witnesses are both associated with the General Accounting Office. They are Donald Lyons and Garry Roemer.

Do you each swear that the testimony you will give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. LYONS. I do.

Mr. ROEMER. I do.

STATEMENT OF DONALD LYONS AND GARRY ROEMER, SUPERVISORY AUDITORS ASSIGNED TO THE NEW YORK REGION OF THE GENERAL ACCOUNTING OFFICE

Senator HART. Gentlemen, we will order your statement printed in full. If, as you go along, there is any footnoting, do not be uncomfortable to do so and the footnotes will be added.

Mr. LYONS. Thank you very much, Senator.

My name is Donald Lyons. My associate is Garry Roemer. We are supervisory auditors assigned to the New York region of the General Accounting Office.

In January 1972 we were requested to assist this subcommittee's staff in its study of competition among money lenders and the functioning of the market for mortgage money.

Specifically, Mr. Blum of the subcommittee staff asked us to inquire into the status of Government National Mortgage Association, GNMA, pools at the Inter-Island Mortgagee Corp., 176-60 Union Turnpike, Flushing, N.Y.

GNMA, a Government-owned corporation, was created by the Congress in the Housing and Urban Development Act of 1968. This legislation divided the Federal National Mortgage Association, FNMA, into two entities—GNMA and a revamped FNMA.

GNMA was established to perform some of the former FNMA functions, as well as to guarantee mortgage-backed securities issued by either the new Federal National Mortgage Association or any other issuer approved by GNMA.

We confined our inquiries to the last point: Inter-Island's issuance of mortgage-backed securities guaranteed by GNMA.

The information was provided primarily by Mr. Stanley Sirote and Miss K. Koury, president and senior vice president, respectively, of Inter-Island.

Briefly, the procedures utilized in these GNMA-guaranteed mortgage pools are described below. For a fee, GNMA will guarantee mortgage-backed securities issued to the public by an approved issuer. At the option of the issuer, securities may be issued as a pass-through type or bond type, but must be backed by pools of mortgages consisting of FHA insured, VA guaranteed, or Farmers Home Administration guaranteed mortgages.

The issuer is responsible for administering the mortgage pools backing the securities, including the collection of the principal and interest on the mortgages. In the event that the issuer defaults in making timely payment of principal and/or interest to the owner of the guaranteed security, GNMA may make the payment and take title to the mortgages backing the security.

The regulations provide that two types of pass-through securities may be issued—straight pass-through type or modified pass-through type. Securities are designated as pass through because principal and interest are passed through monthly to the security owners. Under a straight pass-through security, the owner is paid a proportionate share, less a service charge, or the principal and interest collected by the issuer on the mortgages in the pool no later than 15 days after the close of the month in which the collections are made.

Under a modified pass-through security—which is the case in the Inter-Island's securities—the owner is paid a specified amount of principal and interest no later than 15 days after the close of the month in which payment of principal and interest on the mortgages backing the securities is due, whether or not collected by the issuer.

In addition, a proportionate share of the prepayments of interest and/or mortgage balances is also passed through to the security owners.

The regulations require issuers of pass-through securities to deliver to custodians satisfactory to GNMA, the mortgage notes and other principal documents representing the mortgages in the pool, for safekeeping as collateral for the GNMA guarantee.

As of January 1972, Inter-Island had established six GNMA-guaranteed mortgage-backed security pools with total mortgage amounts of approximately \$26 million. A recap of the pools formed by Inter-Island with data on formation dates, number of mortgages,

amounts and number and percentage of arrearages are included below, which I will not attempt to read, as it can be copied into the record.

(The document follows:)

CHART I

Pool No.	Date of pool	Amount of pool	Total number of pool mortgages	Mortgages more than 3 mos. in arrears	
				Number	Percent
225.....	Mar. 1, 1971.....	\$2,000,000	86	5	6
482.....	May 1, 1971.....	4,000,000	172	10	6
642.....	June 1, 1971.....	11,000,000	588	58	10
722.....	June 30, 1971.....	4,500,000	183	23	7
867.....	do.....	1,500,000	73	13	18
868.....	July 1971.....	3,000,000	138		
Total.....		26,000,000	1,240	99	8

Mr. LYONS. In forming GNMA pools, Inter-Island includes both self-originated mortgages and mortgages purchased from other companies. Mortgages were purchased from other companies when Inter-Island did not have sufficient mortgages on hand to meet the dollar and other requirements necessary to establish a GNMA pool.

Inter-Island originated mortgages accounted for 857 of the 1,240—69 percent—mortgages in the aforementioned six pools.

United Institutional Servicing Corp. was the primary supplier of other mortgages to complete the Inter-Island GNMA pools—214 mortgages or 17 percent of the total. Other mortgage companies from whom Inter-Island purchased mortgages included Pilgrim, Exchange, Nationwide, Van Guard Richmond Funding, Marschall Associates, Huttner Funding, and Lauer.

Since 86 percent of the mortgages in Inter-Island's GNMA pools were either Inter-Island or United originated, our work was primarily concentrated on the mortgages originated by these two companies.

However, for informational purposes, we also scheduled in our workpapers all loans in foreclosure as of January 21, 1972, regardless of originator; all mortgages which had been removed from GNMA pools and replaced by other mortgages; and the names of brokers who originated mortgages which eventually resulted in foreclosure actions by Inter-Island.

This material is readily available in our workpapers, but too voluminous for inclusion in this statement.

Since information provided by Mr. Sirote on the prices paid for GNMA pool mortgages and information gathered during our review showed different price ranges, we have included in our workpapers a schedule of the mortgages by pool with prices paid as estimated by Mr. Sirote, as well as prices paid as per selected Inter-Island records reviewed by us.

In addition, information provided by Inter-Island to GNMA indicated the price of the securities sold to the purchaser but not the average price paid for the securities that comprise the pool.

The average prices at which the securities were sold, as reported to GNMA were, therefore, shown as the same as the prices paid by Inter-Island for the mortgages. Our review indicated that this was not the case.

Mr. Sirote advised us during the preliminary stages of our review that because of his bad experience with United Institutional Services,

his company no longer did business with United. However, in reviewing Inter-Island's "closing" log for 1972, we noted 27 mortgages ranging from \$15,000 to \$33,000 which had been purchased by Inter-Island from United during the period January 4, 1972, through February 8, 1972.

Mr. Sirote's explanation for these transactions was that the Lawrence-Cedarhurst Savings & Loan was unable to honor a commitment to purchase mortgages from United. Since Inter-Island services mortgages for this bank, Mr. Sirote stated that as a favor, Inter-Island honored the bank's commitment.

With respect to mortgages reviewed at Inter-Island, we looked in detail at nine Inter-Island originated mortgages which had gone into foreclosure to determine what problems had been associated with them and if certain of the problems could or should have been seen at a point in time when action was feasible.

In addition, we scanned the Inter-Island cards on the United mortgages purchased for inclusion in Pool 642, since Pool 642 was the largest pool in terms of number of mortgages and dollar amounts and results had shown 15 percent of the United mortgages in some state of foreclosure.

Regarding mortgages purchased specifically for inclusion in the 642 Pool, we scanned the Inter-Island purchase cards and found numerous cases of little or no collection activity subsequent to their transfer to Inter-Island. This casts doubt on the integrity of the mortgages at the time they were purchased from United.

While our workpapers contain Inter-Island payment history cards on all mortgages purchased from United for Pool 642, a few illustrations should suffice to make the point. Then we list three which were purchased, one in March, two in May of 1971.

I will not attempt to read this chart, but again, it can be copied into the record.

(The document follows:)

CHART 2

Name	Interisland number	Date purchased	Paid through	Foreclosure started
1. R & M Sampson.....	452	March 1971.....	March 1971.....	September 1971.
2. O & J Ortiz.....	422	May 1971.....	May 1971.....	Do.
3. A. Jackson.....	384	.....do.....	.....do.....	Do.

For informational purposes, we are including a schedule of the Inter-Island originated mortgages reviewed as well as brief descriptions of what we found in each case.

Pool number	Name	Interisland account number
225.....	Charlie Gordon.....	8775-38
482.....	Homer Alexander, Jr.....	8776-3
642.....	Edward Gamble.....	8777-16
	George Geter.....	8777-118
	Corene Thompson, Donald Green.....	8777-124
	Roy and Mary McLeod.....	8777-181
	W. and C. Patterson.....	8777-197
	James and Nancy Allen.....	8777-318
867.....	Delano and Theresa McLaurin.....	8779-52

Mr. LYONS. They were made through the month in which they were purchased through Inter-Island. No payments and foreclosures started in September 1971.

We will make an insert to the pool number on the last case. It is not a 642 Pool. It is a different pool. I believe it is 867, and I will have to check that.

Senator HART. The record will be open to have that correction.

Mr. LYONS. Before getting into the details of the nine cases mentioned, I would like to take a few minutes to discuss the role which Inter-Island plays in the FHA mortgage insurance program.

The FHA designates some mortgage companies as being "FHA approved lenders." In the trade, this is known as "having an eagle." Brokers and funding companies which do not have an eagle, submit information to companies such as Inter-Island which has an eagle, for review of the information, the making out of the FHA application, and the forwarding of this data to FHA.

Inter-Island also provides funds to the broker or funding company to finance the mortgage. Inter-Island screens the information it receives to determine if the individual seeking the mortgage is eligible for FHA insurance and verifies the information to determine its accuracy and veracity.

Inter-Island sends out bank confirmations to determine if the amount shown as cash in the bank is accurate, sends out employment verifications to determine if the salary shown is accurate, and arranges for other required reports such as the title search, surveyor's report, credit report on the applicant and other similar documents.

It assembles this information and reports and forwards them to the local FHA or VA office. It is obvious, then, that companies such as Inter-Island play an important role in seeing that only those individuals who meet FHA or VA requirements are given FHA-insured or VA-guarantee mortgages.

When we examined Inter-Island's files, we were looking for internal memorandums, notes, or contradictory or unexplained information, which might cast doubt on the manner in which Inter-Island was fulfilling its obligations.

It is possible there are reasonable and legitimate explanations for the questionable areas we discovered in these files. However, we also believe it is possible that this information represents attempts by Inter-Island or the brokers involved in these transactions to construct a set of facts which would lead to FHA approval of a mortgage application.

The areas we found questionable are the following:

Bank confirmations: Inter-Island would receive a bank confirmation showing only a small amount of money in the applicant's account. A note would then appear in Inter-Island's files saying something like, "Bank confirmation needs"—and then whatever the additional amount required would be.

The broker would normally be notified that this additional amount was needed in the account. The next bank confirmation, at a later point in time, would show in fact the needed amount was in the account.

It is, of course, possible that the individual seeking the mortgage deposited the additional sums required. Or, it is possible also that

some other parties to the transaction deposited these amounts to prevent the deal from falling through.

The next category is "employment verifications." We found a couple of instances where the employment verifications did not show that the individual seeking the mortgage was getting a high enough salary to qualify for the mortgage insurance, or that his probability of future employment was doubtful.

There is then a second employment verification which might show a higher salary, or that the individual was going to get an increase in the near future, or that his future employment potential was good.

In addition, we found miscellaneous other areas in which Inter-Island or other parties to the transaction might be adjusting or distorting the facts to make it appear that the individual was, in fact, entitled to FHA or VA insurance.

The first case I would like to discuss is the case of Charlie and Patricia Gordon. This case contains many of the elements I have just discussed.

For example, as part of Inter-Island's procedure during the closing of the mortgage, Inter-Island requires that the people seeking the mortgage sign an affidavit stating that they are still employed at the place indicated on their application. This affidavit is not required by FHA regulation.

We were told by Mr. Sirote that his company requires it to protect itself.

The affidavit of Charlie and Patricia Gordon was dated December 1970 and that states that they are working at the same employer as of the time they made their application.

Thirteen months later, when the mortgage was in foreclosure, an Inter-Island employee interviewed this employer who stated that Mr. Gordon had not worked for him for "at least 1 year"; that is, since at least November 1970.

It therefore appears that at the time the affidavit was signed, Mr. Gordon was not, in fact, working at the place he said he was working.

It is possible that the employer gave his statement as to "at least 1 year" off the top of his head and that he was wrong; and that, in fact, Mr. Gordon did work there in December 1970 at the time the mortgage was closed. However, we found no evidence in Inter-Island's files that the servicer pursued this matter to reconcile these two conflicting pieces of information. Such an investigation may have pointed to possible fraud in this transaction and to the need for additional procedures Inter-Island could have instituted to prevent recurrences of such situations.

We also noted something interesting in the way Inter-Island processed this mortgage prior to closing. On August 17, 1970, Inter-Island sent a letter to the broker for his transaction, Astronaut Realty, saying the bank confirmation was short \$800 for closing.

About a month later, on September 21, 1970, the bank confirmation shows \$810 on deposit. The fact that Inter-Island says that \$800 was needed and about a month later this amount shows up in the bank is certainly questionable.

This at least raises the question of whether Astronaut Realty or Inter-Island or someone else deposited \$800 into the account so that

the mortgage would be approved by FHA. It is, of course, possible that Mr. Gordon came up with the \$800 himself and deposited it.

Frequently, when a house goes into foreclosure, the homeowner runs away from his financial problem. Now, the reason someone from Inter-Island went to Mr. Gordon's employer after the mortgage was in foreclosure was because Mr. Gordon could not be located.

The FHA mortgage application in this case shows that Mr. Gordon was receiving a VA pension of \$110 per month. We think it is possible that Mr. Gordon notified the VA of his whereabouts so that he could continue receiving these amounts. We found, however, no evidence in Inter-Island's files of attempts to contact the VA to determine if they knew his current whereabouts. We also noted that the files did not indicate that there was any attempt to serve the foreclosure papers on his wife, although she was a co-signer of the mortgage.

When these papers are not served, the foreclosure process is lengthened, increasing the time that the house may be vandalized, and jeopardizing FHA's interest in the house.

Closing on this house took place on December 14, 1970. On February 22, 1971, a Mr. Kirkland of Inter-Island interviewed the tenants in the house who said they were still paying rent to the prior owner, Walker Real Estate, Nostrand Avenue, Brooklyn, N. Y.

Miss Koury, senior vice-president of Inter-Island, told us that she remembers speaking to Mr. Gordon in May 1971, at which time he said that Astronaut Realty had swindled him. Miss Koury remembers Mr. Gordon saying that immediately after the closing of the mortgage in December 1970, he signed some papers with a Benjamin Walker. Mr. Gordon did not know what these papers were.

We, frankly, do not know exactly what to make of this last set of facts either. It is possible that Mr. Gordon merely signed an agreement with Walker Realty to collect rents; or, on the other hand, Mr. Gordon could have been told that he could make a profit on the rents from this house—all he had to do was buy the house and leave everything else up to Walker Realty.

In this way, the broker could make a profit on the sale of the house. Mr. Gordon would be led to believe he could profit from the rents, and the mortgage company would be protected by the FHA insurance. We do not have enough information to determine exactly what did happen in this case.

To summarize the first case, it appears that from the processing of the mortgage application, to the closing of the mortgage, and to the foreclosure proceedings, the evidence in the files casts doubts on the procedures used by Inter-Island to protect the interests of the Government and the homeowner.

In the next case I am going to discuss, the item that we are questioning in this is something which did not appear in the first case. This is the accuracy of the mortgagor's salary, in this case a Homer and Priscilla Alexander.

The files for this case show that on August 19, 1970, FHA refused to insure this mortgage because the applicant's salary was too low. On this same date, August 19, 1970, the mortgagor's employer sent a letter to Inter-Island stating that Mr. Alexander would be receiving a salary increase by the end of the year with a second increase in April 1971.

We, however, could not determine which salary figure was actually reported to the FHA. The fact that the FHA turndown is dated on the same date as the letter from Mr. Alexander's employer seems to us to be questionable.

We also noted that some of the information in the assets section of the FHA application might be considered questionable.

For example, one of the cash accounts shown in this section is "Gift—\$250." We did not locate any explanation of this amount.

We also noted that the Inter-Island files contained two bank confirmations for the same account about a month apart. The first, dated July 1, 1970, shows a balance of \$33.42. The second, dated July 30, 1970, or about a month later, shows a balance of \$350.16.

Also in the files was a memorandum to the effect that the assets were short 10 percent. The above-mentioned "Gift," together with the second bank confirmation, accounts for 10 percent of the total assets as shown on the FHA application.

We believe it possible that some party who had an interest in the granting of FHA insurance could have deposited in the applicant's account the additional amounts required. The other cash asset shown—Gift—\$250—is so broad and general that some additional explanation should have been obtained by Inter-Island.

In a case such as this, where the facts would indicate some uncertainty as to how much cash the applicant actually had, we believe that Inter-Island should have taken additional steps to ascertain exactly how much cash this individual did have available.

We found no evidence that these additional steps were, in fact, taken.

The next file we are going to discuss, that for Edward and Betty Gamble, is for a VA guaranteed loan. We first noted that this file contained no record of a bank verification. This omission may have been a clerical oversight.

Although there was no bank verification in the file, there were three employment verifications. The first is dated July 30, 1970, and in response to item 11—Probability of Continued Employment—the employer wrote, "During start vacation time problematical. We took him on 4/20/70."

Attached to this form is an Inter-Island memo stating, "Sent back for deletion item No. 11. OK. Form sent by broker."

The second employment verification is dated August 5, 1970, and states that Mr. Gamble started working April 20, 1970, and was laid off July 31, 1970. It specifically states that Mr. Gamble is no longer in their employ.

Attached to the second verification is an Inter-Island memo dated August 11 as follows: "Called broker about Edward Gamble's employment request."

The third employment verification is dated October 12, 1970, and states that Mr. Gamble had been working at this same place for 3 years and that his probability of future employment was good.

(The documents referred to follow. Testimony resumes on p. 272.)

Edward Gamble's Employment Verifications

EXHIBIT 1

First Employment Verification

Form Approved
Budget Bureau No. 43-5267U.S. VETERANS ADMINISTRATION
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FEDERAL HOUSING ADMINISTRATION

REQUEST FOR VERIFICATION OF EMPLOYMENT

INSTRUCTIONS: LENDER - Complete Items 1 thru 7. Have applicant complete item 8. Forward directly to employer named in Item 1.

EMPLOYER - Please complete Items 9 thru 16 and return directly to lender named in Item 2.

PART I - REQUEST

1. TO (Name and address of employer)		2. FROM (Name and address of lender)	
Penachio Corporation 407 East 101 Street New York, New York		Inter-Island Mortgagee Corp. 90-04 161 Street Jamaica, New York 11432	
3. SIGNATURE OF LENDER	4. TITLE	5. DATE	6. FHA OR VA NUMBER
<i>Stanley L. Lirio</i>	President	7-27-70	

I have applied for a mortgage loan and stated that I am employed by you. My signature below authorizes verification of this information.

7. NAME AND ADDRESS OF APPLICANT	8. SIGNATURE OF APPLICANT
Edward Gamble 1690 Wyck Avenue Bronx, New York	<i>Edward L. Gamble</i>

PART II - VERIFICATION

EMPLOYMENT DATA		PAY DATA	
9A. IS APPLICANT NOW EMPLOYED BY YOU? <input type="checkbox"/> YES <input type="checkbox"/> NO (If "No," complete Items 9c and 9d.)		12A. BASE PAY (Enter amount and check period) for 40 hrs. <input type="checkbox"/> ANNUAL <input type="checkbox"/> HOURLY <input type="checkbox"/> MONTHLY <input type="checkbox"/> OTHER (Specify)	
9B. HOW LONG HAS APPLICANT BEEN EMPLOYED BY YOU? (If Military, enter total service)		12B. EARNINGS LAST 12 MONTHS	
9C. DATE APPLICANT LEFT		12C. TO BE COMPLETED FOR MILITARY PERSONNEL ONLY	
9D. REASON FOR LEAVING		PAY GRADE	
10. PRESENT POSITION		TYPE	
Truck driver		MONTHLY AMOUNT	
11. PROBABILITY OF CONTINUED EMPLOYMENT		BASE PAY	
during start vacation problematical - we took him on 4-20-70		\$	
13. REMARKS		FLIGHT OR HAZ/RO	
He is a very nice man... seems to do his work and his business		CLOTHING	
we do not wish to get involved with any responsibility regarding a workers finance problems.		QUARTERS	
		PRO PAY	
		OVER SEAS	
		OR COMBAT	

The above information is provided in strict confidence in response to your request.

14. SIGNATURE OF EMPLOYER	15. TITLE	16. DATE
<i>Stanley L. Lirio</i>	<i>President</i>	7/30/70

THE INFORMATION ON THIS FORM IS CONFIDENTIAL. IT IS TO BE TRANSMITTED DIRECTLY, WITHOUT PASSING THROUGH THE HANDS OF THE APPLICANT OR ANY OTHER PARTY.

EXHIBIT 2

Inter-Island Memo Attached to First Verification

MEMO: A

sent back
for deletion
for item
11
C.K. 1/2/72
J. M. 1/2/72

INTER-ISLAND MORTGAGEE CORP.
Approved F.H.A. Mortgage Lender
90-04 161st Street - Jamaica, N.Y. 11432
Telephone: OL 8-4220

EXHIBIT 3

Second Employment Verification

Form 10
August 68

VETERANS ADMINISTRATION AND U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT FEDERAL HOUSING ADMINISTRATION			
REQUEST FOR VERIFICATION OF EMPLOYMENT			
INSTRUCTIONS: LENDER - Complete Items 1 thru 7. Have applicant complete Item 8. Forward directly to employer named in Item 1.			
EMPLOYER - Please complete Items 9 thru 16 and return directly to lender named in Item 2.			
PART I - REQUEST			
1. LENDER (Name and address of employer)		2. FROM (Name and address of lender)	
Penachio Corporation 407 East 101 Street New York, New York		Inter-Island Mortgagee Corp. 90-04 161st Street Jamaica, New York 11432	
3. SIGNATURE OF LENDER	4. TITLE	5. DATE	6. FHA OR VA NUMBER
<i>Stanley Lint</i>	President	8/5/70	
I have applied for a mortgage loan and stated that I am employed by you. My signature below authorizes verification of this information.			
7. NAME AND ADDRESS OF APPLICANT		8. SIGNATURE OF APPLICANT	
Edward Gamble 1690 Vyse Avenue, Bronx, N.Y.			
PART II - VERIFICATION			
EMPLOYMENT DATA		PAY DATA	
9A. IS APPLICANT NOW EMPLOYED BY YOU? <input type="checkbox"/> YES <input type="checkbox"/> NO (If "No," complete Items 9C and 9D.)		12A. BASE PAY (Enter amount and check period) <input type="checkbox"/> ANNUAL <input type="checkbox"/> MONTHLY <input type="checkbox"/> OTHER (Specify)	
9B. HOW LONG HAS APPLICANT BEEN EMPLOYED BY YOU? (If military, enter total service)		12B. EARNINGS LAST 12 MONTHS	
9C. DATE APPLICANT LEFT		TYPE	
7-31-70		AMOUNT	
9D. REASON FOR LEAVING		BASE PAY	
He was laid off		141.00 for 40 hrs	
10. PRESENT POSITION		OVERTIME	
He was a driver-truck		varied	
11. PROBABILITY OF CONTINUING EMPLOYMENT		COMMISSIONS	
no		BONUS	
13. REMARKS		12C. TO BE COMPLETED FOR MILITARY PERSONNEL ONLY	
This man is now OUT of our employ He was fired by Mr. Nicholas V. Penachio He started April 20- 1970 and was out 7-31-70		PAY GRADE	
The above information is provided in strict confidence in response to your request.		14. DATE	
SIGNATURE OF EMPLOYER		15. DATE	
<i>Stanley Lint</i>		8/5/70	
THE INFORMATION ON THIS FORM IS CONFIDENTIAL. IT IS TO BE TRANSMITTED DIRECTLY, WITHOUT PASSING THROUGH THE HANDS OF THE APPLICANT OR ANY OTHER PARTY.			

EXHIBIT 4

Inter-Island Memo Attached to Second Verification

NO:

8/11

Called broker
about Edward
Gamble's exp. request

Spot

Lard

INTER-ISLAND MORTGAGEE CORP.

Approved F.H.A. Mortgage Lender

90-94 181st Street - Jamaica, N.Y. 11432

Telephone: OL 8-4226

EXHIBIT 5

Third Employment Verification

Form Approved
Budget Item No. 43-B056

U.S. DEPARTMENT OF REVENUE AND CUSTOMS DEVELOPMENT VETERANS ADMINISTRATION FEDERAL RESERVE ADMINISTRATION			
REQUEST FOR VERIFICATION OF EMPLOYMENT			
INSTRUCTIONS: LENDER - Complete Items 1 thru 7. Have applicant complete Item 8. Forward directly to employer named in item 1.			
EMPLOYER - Please complete Items 9 thru 16 and return directly to lender named in Item 2.			
PART I - REQUEST			
1. TO (Name and address of employer)		2. FROM (Name and address of lender)	
NICHOLAS V. PENACHIO. 407 East 101st St. N.Y.C. 10029		Inter-Island Mortgagee Corp. 90-04 161st Street Jamaica, New York 11432	
3. SIGNATURE OF LENDER	4. TITLE	5. DATE	6. FHA OR VA NUMBER
<i>Stanley Siroto</i>	President	10/12/70	
I have applied for a mortgage loan and stated that I am employed by you. My signature below authorizes verification of this information.			
7. NAME AND ADDRESS OF APPLICANT		8. SIGNATURE OF APPLICANT	
Edward L. Gamble 1690 Vyse Ave., Bronx			
PART II - VERIFICATION			
EMPLOYMENT DATA		PAY DATA	
9A. IS APPLICANT NOW EMPLOYED BY YOU?		12A. BASE PAY (Enter amount and check period)	
Yes <input checked="" type="checkbox"/> NO <input type="checkbox"/> (If "No," complete Items 9c and 9d.)		<input type="checkbox"/> ANNUAL <input type="checkbox"/> HOURLY <input type="checkbox"/> MONTHLY <input type="checkbox"/> OTHER (Specify)	
9B. INTERVIEW HAS BEEN CONDUCTED BY EMPLOYER BY YOU? (If "No," enter total number)		12B. EARNINGS LAST 12 MONTHS	
Three years <i>1/1/68 to 10/12/70</i>		<input type="checkbox"/> WEEKLY	
9C. DATE APPLICANT LEFT		TYPE	
on 4/12/70		MONTHLY AMOUNT	
9D. REASON FOR LEAVING		TYPE	
		BASE PAY	
		40 Hrs. \$ 141.00	
		OVERTIME	
		Per wk. \$ 25.00	
		COMMISSIONS	
		\$ no	
		BONUS	
		\$ no	
10. PRESENT POSITION		TYPE	
Truck Driver		MONTHLY AMOUNT	
		BASE PAY	
		\$	
		RATIONS	
		\$	
		FLIGHT OR HAZARD	
		\$	
		CLOTHING	
		\$	
		QUARTERS	
		\$	
		FRO PAY	
		\$	
		OVER SEAS OR COMBAT	
		\$	
11. PROBABILITY OF CONTINUED EMPLOYMENT			
Good			
13. REMARKS			
The above information is provided in strict confidence in response to your request.			
14. SIGNATURE OF EMPLOYER		15. DATE	
For Nicholas V. Penachio <i>N. V. Penachio</i>		Bookkeeper <i>N. V. Penachio</i>	
		10-16-70	
THE INFORMATION ON THIS FORM IS CONFIDENTIAL. IT IS TO BE TRANSMITTED DIRECTLY, WITHOUT PASSING THROUGH THE HANDS OF THE APPLICANT OR ANY OTHER PARTY.			

RECEIVED
70 OCT 20 PM 4 03

In short, the first says he has been working there a few months and may possibly be laid off; the second says he worked there a few months and had been laid off; the third one says he has worked there 3 years and continues to work there.

What we question about this sequence is that, instead of trying to determine what Mr. Gamble's employment status actually was, Inter-Island sought to withhold information from the VA by specifi-

cally requesting that the statement casting doubt on Mr. Gamble's future employment be deleted.

It seems that what Inter-Island did in this case was to notify the broker of the applicant's doubtful status, and then not ask any questions when an employment verification acceptable to VA was received.

Although there may have been additional questions asked which were not reflected in the files, we believe that Inter-Island's request to have this statement removed to be at best questionable.

The next case concerns a house purchased by a George Geter.

1. The employment verification shows that Geter was a painter's helper.

2. The FHA inspection report on the house showed that the house had to be painted.

3. The broker in this transaction paid Mr. Geter \$1,200 to paint the house to satisfy this FHA requirement. This \$1,200 and \$150 held in escrow are the only cash assets shown on the FHA application.

This raises the question of how much cash Mr. Geter actually did have at the time of the application, since his main cash asset came from someone having an interest in the transaction.

Another questionable area is brought up in a letter dated December 29, 1969. FHA's Hempstead office said that they were unwilling to extend their commitment as a reinspection made December 12, 1969, revealed the grade level floor being used for retail and commercial purposes.

An affidavit sent by a law firm states that this is not true. FHA eventually did extend this commitment.

The next case involves a home purchased jointly by a Corene Thompson and Donald Greene.

We again found the bank verifications raised questions which could not be resolved from the files. The bank verifications for Corene Thompson on August 18, 1970, show one account with a \$65 balance and another account with an \$11 balance opened about a month before.

Verifications for the same accounts, dated November 9, 1970, or about 12 weeks later, show balances of \$800 and \$700, respectively.

On November 6, 1970, about 3 days before the second verification, Inter-Island sent a letter to the broker, Accredited Realty, which, in part, contained the following: "Bank Verification—needs \$1,650."

On the copy of the letter we saw, the \$1,650 is crossed out and "still short \$250" was written in, possibly reflecting the information on the second confirmation.

The question that comes to mind is whether Inter-Island was merely notifying the broker of the status of the application, or if Inter-Island was encouraging the broker to deposit the additional sums needed for FHA approval.

The next case is a relatively simple one. It involves a house purchased by a Mary and Leroy McLeod.

Again, the questionable document is the bank verification, which in this case shows an account with a balance of \$500. The account was opened 6 days before the verification was sent out by Inter-Island. The short time since this account was opened, brings up the question of where the money came from and what the applicants' normal cash situation is like.

The seventh case concerns a house purchased by Willie James and Carell Paterson.

FHA originally determined that the mortgage was not eligible for two reasons: (1) because the net income was too low, and, (2) because no telephone number could be found for Mr. Paterson's part-time employer.

We found that after notifying the broker of these developments, Inter-Island later sent a telephone number to FHA. Regarding the first cause for rejection, the income being too low, no explanation for FHA's later approval of the mortgage could be located in the files.

A second questionable area is raised by an undated Inter-Island letter to the real estate broker, Ben Laufer, saying that the bank verification needs \$925.

On September 2, 1970, Inter-Island's closing attorney wrote a letter "to whom it may concern," acknowledging receipt of \$950 to be held in escrow. This escrow account is the only cash account shown on the FHA application.

Since the only cash assets are in the hands of a party to the transaction and are not subject to independent verification, the true cash assets of the parties are brought into question.

The next case is the house purchased by James and Nancy Allen on the Rockaway Peninsula in New York City. The title search revealed several housing code violations.

One of these housing violations was year-round use of premises classified for summer resort occupancy. Although only summer occupancy is permitted, the amount shown as rental income on the FHA applications assumes year-round occupancy.

The effect is to overstate the amount of income which the applicants have to cover the mortgage and other expenses of the house.

Also questionable is the employment verification, which shows an income of \$9,500 per year or \$792 per month. The FHA application shows an income of \$823. We could not find documentation for this higher amount.

In summary, the application sent to FHA may have overstated income two ways: (1) by including rental income for 12 months instead of for the summer only, and (2) by possibly overstating the applicant's salary.

The last file we are going to discuss concerns a mortgage application for a house purchased by a Delano and Theresa McLaurin.

There are two employment verifications on file. One is dated April 26, 1971, and shows an income of \$7,450 for a 10-month period. The other is dated April 28, 1971, that is 2 days later, and shows a \$10,000 for the same period. The FHA application shows a salary figure which is slightly higher than the second verification.

The file does not contain any documentation for this higher amount. The use of the higher amount could be a clerical error or the documentation supporting it may have not been put in the file. We believe it may also be possible that the amount may have been purposely overstated so that the application would be approved by FHA.

In detail those were the nine cases we reviewed. We believe that a lending company which has an eagle, that is, which is an FHA ap-

proved lender, implies a responsibility to protect the Government's interest, and to reveal to FHA or the VA all facts which might cast doubt on the financial ability of an individual to meet his mortgage obligations.

The facts which we have just presented to you, again, although having possible reasonable and legitimate explanations, also show that at least in these nine cases Inter-Island may not fully be meeting these obligations. The result is not only that the Government suffers a loss, but also the individual is forced into a foreclosure proceeding.

That is the end of my statement on Inter-Island. We have a few more words with respect to United Institutional Servicing.

With respect to the United Institutional Servicing Corp., USIC, 370 Lexington Avenue, New York City, we met with various corporate officials in the latter part of February 1972. As a point of reference, Empire National Bank had purchased 100 percent of the stock of USIC's parent company, Capital Ventures, Inc., during the August-September 1971 period. At that time, the Empbanque Capital Corp. was established to handle the majority of the mortgage functions with USIC gradually being phased out, limited to mortgage servicing.

USIC activities since that time are being carried on under the Empbanque Capital Corp. name. Principal officials contacted included Mr. Frank J. Caruso, president and chief executive officer of Empbanque Capital Corp., in addition to being an Empire National Bank vice president; Empbanque Capital Corp. senior vice president Warrent Light, Mr. Levine, of Empbanque's legal staff, and Mr. Bernard Roth, president of UISC.

Discussions with Empbanque officials as to the relatively good experience rates on mortgages inserted in GNMA pools elicited three reasons for this fact:

One, no attempt to form a pool unless it had two or more times the amount of mortgages needed to make up a pool so that only the more desirable mortgages may be inserted.

Two, a minimum amount of GNMA mortgages in the less desirable areas of Brooklyn.

Three, the ability to sell to Inter-Island its least desirable FHA-insured, VA-guaranteed mortgages when Inter-Island was unable to honor a commitment to establish a GNMA pool, since it lacked the necessary mortgages.

I refer to pool 642.

As of January 31, 1972, information provided by Empbanque indicated that 8 GNMA pools had been established, amounting to approximately \$17,800,000. A recapitulation of the pools, as well as three pertinent notes concerning the notes is included below.

As you can note from that, the percentages of the arrearages on the schedule attached is relatively good. The only pool with a 12-percent average rate includes only 25 mortgages, amounting to \$500,000 in total.

Mr. Chairman, I will not read these figures, but they can be copied into the record as though I read them.

(The document follows:)

CHART 3

Pool number	Amount of pool	Total number of pool mortgages	Mortgages in arrears		Date of pool
			Number	Percent	
226.....	\$4,000,000	164	4	1.77	Mar. 1, 1971
333.....	2,000,000	79	3	3.79	Apr. 1, 1971
488.....	2,000,000	80	3	3.75	June 1, 1971
886.....	2,000,000	84	1	1.19	Aug. 1, 1971
922.....	1,300,000	53	1	1.88	Nov. 1, 1971
1,064.....	2,000,000	77	3	3.89	Dec. 1, 1971
1,110.....	500,000	25	3	12.00	Do.
1,150.....	4,000,000	157	4	2.54	Jan. 1, 1972
Total.....	17,800,000	719	22	-----	

NOTES

1. Pools 226, 333, and 488 were formed by UISC; all subsequent pools by Empbanque Capital Corp.
2. The custodian for all Empbanque GNMA pools except pool 333 is the Empire Savings Bank. The custodian for pool 333 is the Chase Manhattan Bank.
3. UISC formed 3 pools while under suspension by FNMA. Our records indicate that this suspension took effect in February of 1971.

Since the experience on GNMA was relatively favorable, our segment was then terminated and the workpapers conveyed to the subcommittee staff.

Mr. LYONS. Since the experience on GNMA pools was relatively favorable, our segment was then terminated and the workpapers conveyed to the subcommittee staff.

Senator HART. Before the subcommittee raises with you specific questions, let me thank you and all of those who are associated with you for the time and effort that you gave to the request made to you for this kind of an analysis.

We do appreciate it.

Mr. LYONS. Thank you.

Senator HART. Mr. O'Leary, any questions?

Mr. O'LEARY. Mr. Lyons and Mr. Roemer, going back to the first part of your statement, where you describe the GNMA pool, I would like to go through the mechanics of this with you if I may. And you can correct me where I am wrong.

As I understand it, it operates something like this: Mortgage companies, such as Inter-Island, decide to form a GNMA pool and it takes mortgages, FHA-insured or VA-guaranteed mortgages, which either it has originated or purchased from someone else, pays a fee, gets permission from GNMA to form a pool of let us say \$2 million.

Am I correct that all the mortgages in the pool must have the same interest rate, either 7.5 or whatever it is?

Mr. LYONS. That is correct.

Mr. O'LEARY. And after assembling the package of whatever number of mortgages it takes to reach the figure \$2 million, delivers these mortgage notes and the mortgages to a custodian, as I understand it, which is ordinarily the trust department of a commercial bank, such as the Chase Manhattan or some other commercial bank. Is that right?

Mr. LYONS. Yes, sir.

Mr. O'LEARY. The mortgage company then issues a certificate or security based upon that amount of mortgages which GNMA guarantees. Is that correct?

Mr. ROEMER. Yes; that is correct. The total amount of those securities are the amount that GNMA has approved for the pool.

Mr. O'LEARY. So the face amount of the security would be the total amount of the mortgages in the pool?

Mr. ROEMER. Right, roughly speaking.

Mr. O'LEARY. Now, a mortgage company such as Inter-Island turns around and sells that security to somebody else on the secondary market. Is that correct?

Mr. LYONS. Exactly.

Mr. O'LEARY. Now, with respect to the pools that you have outlined, starting with Pool No. 225, Inter-Island took the security represented by that pool and sold it to whom?

Mr. ROEMER. The securities were sold to the Anchor Savings Bank.

Mr. O'LEARY. And do you know whether the purchase price for the security was more or less than the \$2 million of mortgages in the pool?

Mr. ROEMER. These securities were sold for \$2,004,542.

Mr. O'LEARY. With respect to the second pool, No. 482, to whom was that security sold?

Mr. ROEMER. Those were also sold to the Anchor Savings Bank. The price Anchor paid was \$4,001,000.

Mr. O'LEARY. And Pool No. 642?

Mr. ROEMER. Anchor Savings Bank, \$11,001,551.

Mr. O'LEARY. I am sorry, did you say \$11 million?

Mr. ROEMER. \$11 million, yes.

Mr. O'LEARY. Pool No. 722?

Mr. ROEMER. 722 was sold to three people. First, it was Anchor Savings Bank, \$2,500,000; First Federal Defiance, \$532,131; the Union Savings Bank, \$1,500,000; and the total of that pool, total sales price, was \$4,532,131.

Mr. O'LEARY. And Pool No. 867?

Mr. ROEMER. All these securities were sold to Anchor at a price of \$1,515,482.

Mr. O'LEARY. Finally, Pool No. 868?

Mr. ROEMER. Again, also Anchor Savings Bank. The price there was \$3,020,388.

Mr. O'LEARY. Do you know where the Anchor Savings Bank is located?

Mr. LYONS. Brooklyn, N.Y.

Mr. O'LEARY. So this is an institution which, as part of its charter, also has the authority and responsibility to originate mortgages in the Greater New York Area?

Mr. LYONS. Yes, it does.

Mr. O'LEARY. Just out of curiosity, do you know where the First Federal Defiance is located?

Mr. LYONS. First Federal Defiance is located in Defiance, Ohio.

Mr. O'LEARY. And Union Savings Bank?

Mr. ROEMER. In Manhattan, headquartered in Manhattan.

Mr. O'LEARY. If my calculations are correct, then the Anchor Savings Bank of Brooklyn, with respect to these pools, purchased approximately \$24 million in securities.

Mr. ROEMER. That is correct, \$24 million of the \$26 million.

Mr. O'LEARY. Can you tell us approximately how much time you spent out at Inter-Island Mortgage Co.?

Mr. LYONS. We visited Inter-Island, for a quick accumulation of information, so we spent around, anywhere from 2 to 3 weeks, I would say 3 weeks top.

Mr. O'LEARY. And, as I understand it, you focused principally on the 99 mortgages that were more than 3 months in arrears out of all the mortgages in those GNMA pools?

Mr. LYONS. That is correct. In fact, that was the only feasible method of approaching it based on the time restrictions we did have.

We, in fact, were looking at the bad papers as opposed to good mortgages. If, in fact, you are looking for something wrong with a program, you are going to find out where something failed and find out what the reasons for the failure were.

Mr. O'LEARY. And I guess, to put things in perspective from your point of view, when you are involved in this kind of an investigation, you are dealing with mounds and mounds of papers; are you not?

Mr. LYONS. It is a massive job which requires, naturally, an awful lot of pruning and quick scanning of files. That is, as you know from our statement, we made the observation that in a lot of cases future followup was not done on this because we just did not have the time. And in our statement we phrased it so these are questionable, as opposed to out and out bad cases, as such.

There are possible explanations for it.

Mr. O'LEARY. As I understand it, three files can reach one of these mortgages. Is that correct?

Mr. LYONS. That is correct.

Mr. O'LEARY. A foreclosure file, a servicing file, and a processing file—

Mr. LYONS. That is correct.

Mr. O'LEARY. And I assume that you scanned each of these files, and I am talking now with respect, not to the 99, as I understand it, you scanned the files in the way of approximately 40 to 48?

Mr. LYONS. Approximately 48 we scanned.

Mr. O'LEARY. And knowing that, you have propounded to us today nine which you examined in detail. And I assume we are talking primarily about the processing file.

Mr. LYONS. The processing file is the main source of the information.

Mr. O'LEARY. Thank you, Mr. Lyons.

Senator HART. Mr. Blum?

Mr. BLUM. Thank you, Mr. Chairman.

Mr. Lyons, did you discuss the mortgages that United sold to Inter-Island with officials of United?

What was their reaction, and what happened to the mortgages?

Mr. LYONS. Yes, we visited United because during our review at Inter-Island we were told that the reason for the bad experience on pool No. 642 was, generally, connected with bad paper which they had obtained from United. So, in fact, we took it from the other end.

We visited United, and we inquired into the situation. The answers that we got, the reaction we got, we talked to Mr. Caruso. We also talked to Bernard Roth, Warren Light, and Mr. Levine of their legal staff.

And they indicated, one, that they had no idea when they sold this paper, that it was being sold for inclusion in a GNMA pool; and, No. 2, they also made the observation that this was their least desirable paper, naturally, since Inter-Island is a competitor of theirs and any businessman, in fact, Inter-Island was up against the wall, and they would sell them their least desirable paper which is normal.

Mr. BLUM. They were not at all, in any way, shy about mentioning this was the least desirable paper?

Mr. LYONS. No, not at all. What they were surprised about was, in fact, that it was purchased for the GNMA pool.

Mr. BLUM. And it was all put in what seemed to be a single pool?

Mr. LYONS. Yes. And also the fact that they, themselves, when they set up GNMA pools, would like to double the amount of mortgages prior to the original signing up.

Mr. BLUM. Is it your understanding that all mortgages in the GNMA pool are FHA insured; that GNMA feels that no supervision of the mortgage company operation is required?

Mr. LYONS. It is my general feeling that that is the case. But that is primarily on the evidence that GNMA is such a small operation in Washington, and they have no field operation, and they rely on anything outside, which would include FHA, Fannie Mae or even GAO.

Mr. BLUM. They do have a contract with Fannie Mae for operational purposes, where there is servicing involved, so Fannie Mae does handle operations for them.

Mr. LYONS. Yes.

Mr. BLUM. Fannie Mae suspended United in February of 1971, I believe, and Ginnie Mae pools were set up after the Fannie Mae suspension. Is that your understanding?

Mr. LYONS. Yes. There were pools set up.

Mr. BLUM. And Fannie Mae is the manager of certain operations for Ginnie Mae, so that it appears that—well, Fannie Mae did not notify Ginnie Mae or the Fannie Mae suspension had no effect on United's ability to set up a Ginnie Mae pool. Thus, United was doing business with Ginnie Mae while it was suspended by Fannie Mae, despite the suspension, despite the fact that Fannie Mae said, "That portion of Ginnie Mae business which we service you may not do any further business."

Mr. LYONS. That is correct.

Mr. BLUM. You said earlier in the statement that a commercial bank serves as custodian of the mortgages in a Ginnie Mae pool. And you indicated in a footnote a commercial bank was custodian of United's pool.

Was that Empire National Bank?

Mr. LYONS. Yes, that is what drew it to our attention—that Empire had purchased it.

Mr. BLUM. Here there is no suggestion there was any impropriety in the custodian job. It is just a question of noting that a related company was the custodian.

Mr. LYONS. Exactly. I know of no regulation which would prohibit it. It just strikes me as a possibility.

Mr. BLUM. There was no irregularity in the behavior of the custodian. The only question that might be raised is whether the bank that owns the mortgage company should be its custodian.

Mr. LYONS. Exactly.

Mr. BLUM. Mr. Roemer, the statement mentioned a form which Inter-Island submitted to GNMA indicating the price it paid for mortgages in the pool and the price which it sold the certificate to an investor.

Do you have a copy of the form?

Mr. ROEMER. Yes.

Mr. BLUM. Would you mind reading the prices on the form?

Mr. ROEMER. In Area 3 of the Form, which is called Pool Composition, there is one area entitled, "Average Price." In that area is typed $106\frac{1}{2}$.

Mr. BLUM. Which pool number is this?

Mr. ROEMER. This is 642.

Mr. BLUM. No. 642?

Mr. ROEMER. Yes.

Mr. BLUM. OK. And, first, typed in the sale price of the certificates, $106\frac{1}{2}$.

Mr. ROEMER. Do you want the sale price of these certificates?

Mr. BLUM. Let us talk about the sale price of the certificate, first. That was $106\frac{1}{2}$.

Mr. ROEMER. That is listed on the Form $106\frac{1}{2}$.

(The form referred to follows:)

EXHIBIT 6

GNMA Report Form on Pool No. 642

U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT GOVERNMENT NATIONAL MORTGAGE ASSOCIATION ISSUERS FINAL REPORT ON POOL COMPOSITION		GNMA POOL NUMBER 642
A. APPLICANT		
1. NAME INTER-ISLAND MORTGAGE CORP.	2. ADDRESS AND ZIP CODE 90-04 161st Street Jamaica, New York, 11432	
3. POOL COMPOSITION		
STATE	AMOUNT	% OF TOTAL POOL
New York	\$10,600,000.00	96.4%
Puerto Rico	400,000.00	3.6%
TOTAL \$	\$11,000,000.00	100%
4. SECURITIES (If more than one price, please give ranges.) Sold at a price(s) of <u>106½</u> % Yield to purchaser(s) <u>8</u> % 12-year prepaid, <u>8.50</u> % to maturity.		
* <i>per K. Kory - This is price of securities sold to bank, not price</i>		
D. THE FOLLOWING INFORMATION MAY BE DISCLOSED BY GNMA (Check appropriate boxes) <i>Inter Island paid for the mortgages</i>		
NAME OF ISSUER	INTER-ISLAND MORTGAGE CORP.	
NAMES OF PURCHASERS	ANCHOR SAVINGS BANK	
DATE	8½	
DISCOUNT	106½	
YIELD	8%	
SPECIAL PROVISIONS OF ISSUE		
DATE	NAME OF ISSUER	
5-14-71	INTER-ISLAND MORTGAGE CORP.	
<i>Katherine Kory, Vice President</i>		

FD-1713 (5-70)

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Mr. BLUM. You testified before that that certificate had been purchased by the Anchor Savings Bank. At what price?

Mr. ROEMER. It was \$11,001,551.

Mr. BLUM. That is hardly a premium at 6.5 percent, is it?

Mr. LYONS. That is correct.

Mr. BLUM. A premium of 6.5 percent would be considerably more, so it was sold at something less than the indicated price on the form.

Let us go back to the mortgages which were put in the pool to make it up. What were the stated prices there, Mr. Roemer?

Mr. ROEMER. The stated price was 106½, as stated on the form.

Mr. BLUM. And you indicated that you pressed on whether or not Inter-Island paid 106½ for those, and you were told that, no, it had not. That the price was somewhat lower. Is that correct?

Mr. ROEMER. I was told by Miss Koury that their practice in the area of the pool composition, in the average price slot there, their practice was to put the price the security was sold at, rather than the price they paid for the mortgages. And they seemed under the impression that that was the way to fill out the form.

Mr. BLUM. But from the materials that we have gathered, it seems it was not the price of the certificate that it was sold for, nor was it the price the mortgage was purchased at.

Mr. ROEMER. That is correct.

Mr. BLUM. This form seems to have very little relation to the realities of the transaction.

What might the purpose of GNMA's asking these questions be? Do you think it might be an indication to GNMA that the mortgages are somewhat less than sound if the price paid for them was far below the market?

Mr. ROEMER. For the security or the mortgage?

Mr. BLUM. The mortgage.

Mr. ROEMER. For the mortgages?

Well, if you are talking about par value, since these prices shown are average prices, and the mortgages may be purchased over a 3- or 4-month period of time, it would just indicate a discount. And, you know, you would have to tie it in to the prevailing interest rates.

Mr. BLUM. But GNMA would certainly know the prevailing interest rate, and would have some feel for what kind of a quality of paper was being put into the pool. Is that correct?

Mr. ROEMER. That is correct.

Mr. BLUM. So when this form is not filled out with the kind of accuracy, GNMA loses the management control tool.

Mr. ROEMER. That is correct.

Mr. BLUM. I have no further questions, but I should very much like to express my appreciation both to you and Mr. Lyons for the efforts you have given on our behalf in a very difficult assignment in the very little time given to accomplish it.

Thank you both.

Senator HART. Mr. O'Leary?

Mr. O'LEARY. I would like to follow through on one of the questions asked a little bit earlier.

Mr. Roemer, I said the Anchor Savings Bank paid \$24 million for the securities backed by the GNMA pools. I think you corrected me, did you not? Or did you?

Mr. ROEMER. I said it was approximately right.

Mr. O'LEARY. Now, that \$24 million Inter-Island gets from the Anchor Savings Bank, right?

Mr. ROEMER. That is correct.

Mr. O'LEARY. And Inter-Island is free to utilize that \$24 million and put it back on the street, so to speak, either in loans to real estate speculators who are originating mortgages, to sell for payoff, or whatever commercial line of credit they desire?

Mr. ROEMER. That is correct.

Mr. O'LEARY. That is all I have.

Senator HART. Mr. Chumbris?

Mr. CHUMBRIS. Thank you, Mr. Chairman.

Gentlemen, was your responsibility in this matter limited to the qualifications that you placed on page 1, when you say that you were to inquire into the status of Government National Mortgage Association Pools at the Inter-Island Mortgage Corp?

Mr. ROEMER. Yes, sir.

Mr. CHUMBRIS. Limited to that only?

Mr. ROEMER. Yes.

Mr. CHUMBRIS. Nothing to do with the rest of the programs in New York City or elsewhere?

Mr. LYONS. No, sir. Depending on the results of what we discovered in the GNMA program, it might have been expanded, but it was not. This was the restriction put on it.

Mr. CHUMBRIS. Now, were you representing the General Accounting Office in this matter?

Mr. LYONS. No, sir.

Mr. CHUMBRIS. You were assigned to the subcommittee for this responsibility?

Mr. LYONS. Yes, sir.

Mr. CHUMBRIS. For the record, would it be the responsibility of the General Accounting Office to look into whatever may be irregularities that causes the Government to lose, according to some estimates made, that \$500 million in loans in this particular area of activity all over the country?

Mr. LYONS. Yes, it would. There is no question about it.

Mr. CHUMBRIS. You say it would?

Mr. LYONS. Yes.

Mr. CHUMBRIS. And if you can say it for the record, do you know if the GAO is looking into this matter?

Mr. LYONS. It is my understanding that they are at the present time in a number of regional offices looking into the problem right now.

The specifics, you would have to get from our Washington people.

Mr. CHUMBRIS. But your being here is in compliance with this issue and this issue alone?

Mr. LYONS. Yes, sir.

Mr. CHUMBRIS. I have several things that I thought might be brought out here this morning, but it may not be relevant to ask you to review it at this time because of the limited responsibility that you have.

The question was raised earlier in the hearings, especially on the first day, and I have before me the U.S. News & World Report of April 10, 1972. The title of the subject matter is, "After \$160 Billion to Rescue Cities, Special Report on an Unsolved Problem," and in it, it goes into some of the housing problems that are faced in New York, Detroit, St. Louis, et cetera.

I notice that back in 1961 the amount available by Federal aid to urban areas was only \$3.9 billion. In 1969 that figure was approximately \$15 billion, and projected for 1973, a figure of \$5.1 billion. And that is reported in to try to resolve this problem.

Mr. Chairman, I ask unanimous consent that the article relating to rescuing cities—and it deals quite a bit with housing in urban areas, as well as the inner cities and in the suburbs—be placed in the record, because I think it will be helpful.

Mr. Chairman, it shows, for example, in St. Louis a complex of 43 buildings containing 2,800 housing units was constructed in 1954; and today, only 600 of those units are occupied, which shows you some of the problems that were related by some of the witnesses earlier.

I think that perhaps, as these hearings go on, maybe some of this material that is in this article and others that will be brought to the attention of this subcommittee may be more pertinent.

Senator HART. It will be placed into the record.

Mr. CHUMBRIS. That is all I have, Mr. Chairman.

Mr. BLUM. Mr. Chairman, I would like to ask that the workpapers of Mr. Lyons and Mr. Roemer be made a part of the record and be retained in the subcommittee files.

Senator HART. They will be received and retained in the files.

Again, thank you very much.

EXHIBIT 8

Material Relating to the Testimony of Donald Lyons and Garry Roemer

Memorandum Analyzing the Sales of Mortgages by United to Inter-Island Mortgage Corp.

THE LIBRARY OF CONGRESS,
CONGRESSIONAL RESEARCH SERVICE,
Washington, D.C., March 21, 1972.

To: Senate Anti-trust and Monopoly Subcommittee.

Attention: Jack Blum.

From: Economics Division.

Subject: Analysis of selected secondary market mortgage sales transaction.

In accordance with your recent request we have analyzed the selected mortgage sales transactions data sent to us.

Enclosed is a table showing (1) the estimated percentage points below prevailing market price and (2) the equivalent below market amounts paid by the purchaser of the mortgages.

The transaction dates run between March 8, 1971 to May 27, 1971. The January 1971 transaction date, the first one given, was not used in this table because the maximum FHA interest rate had been changed in that month and the FHA generally permits a period of 2 months to elapse before average market prices are computed for a new interest rate. All of the other transactions (dates) were analyzed.

Given the interest rate on the mortgages (column 2) and the transaction price (column 3), the equivalent yield was derived (column 4) based on an average prepayment of the mortgage at the end of a 15 year period, the term used by FHA in its calculations.

The average secondary mortgage market prices (column 5), reported by the FHA Northeast regional insuring offices, at a 7 percent maximum interest rate were used to find the comparable market yield. The Northeast region includes the New York metropolitan area. It is assumed that the New York S.M.S.A. secondary market price was the same as the average for the region reported by FHA.

If the secondary market price in the S.M.S.A. is higher than the region and the yield is lower, then the transaction excess of yield (column 7) or the points and amount below the market price (shown in column 7 and 8) would be greater, and vice versa.

The difference between the yield on the transaction price and the yield prevailing in the market (column 7) was retranslated into a percentage of principle amounts in the transaction (column 8). On the basis of $\frac{1}{4}$ percent in yield = 2 percentage points of the principle amount, the discount in the transaction was generally greater (or the premium lower) by between 2 and 6 points than the prevailing discount. The transaction price was between 2-6 points below the given class of mortgage at the time of the transaction. In only one out of 17 cases, on May 10, 1971 for 7 percent mortgages was the transaction price above the reported secondary market price average, by about $2\frac{1}{2}$ points.

The last column in the table, shows the estimated amount by which the purchaser paid less (or more in one case) than he would have paid if the transaction price had been on the basis of the prevailing current market yield for FHA secondary market transactions.

CRS-4

ESTIMATE BELOW MARKET AMOUNTS ON TRANSACTION PRICES OF SELECTED SECONDARY MARKET MORTGAGE SALE TRANSACTIONS

Transaction date	Amount (1)	Interest rate on mortgages (2)	Transaction		FHA reported price in northeast region for 7 percent mortgages Price (5)	Equivalent yield (6)	Excess of transaction yield over FHA reported price yield (col. 4 minus col. 6) (7)	Equivalent difference of transaction price in percentage points (12.5 yields= 1 point in price) (8)	Estimated below market amount transaction price (col. 1 times col. 8) (9)
			Price (3)	Equivalent yield (4)					
Mar. 8, 1971	400,000	8.5	106.00	7.81	99.50	7.05	0.76	6.08	24,320
Mar. 11, 1971	1,500,000	8.5	105.50	7.87	99.50	7.05	.82	6.56	98,400
Do	500,000	8.5	105.50	7.87	99.50	7.05	.82	6.56	98,400
Mar. 19, 1971	250,000	7.5	100.50	7.44	99.50	7.05	.39	3.12	7,800
March 1971	250,000	8.0	102.50	7.72	99.50	7.05	.67	5.36	13,400
Mar. 19, 1971	350,000	8.5	105.50	7.87	99.50	7.05	.82	6.56	22,960
Do	250,000	7.5	100.50	7.44	99.50	7.05	.39	3.12	7,800
Do	350,000	8.5	105.50	7.87	99.50	7.05	.82	6.56	22,960
Mar. 23, 1971	250,000	7.0	97.50	7.28	99.50	7.05	.23	1.84	4,600
Do	250,000	8.0	102.50	7.72	99.50	7.05	.67	5.36	13,400
May 10, 1971	500,000	8.5	105.50	7.87	99.50	7.05	.82	6.56	22,960
Do	500,000	7.0	97.50	7.28	99.50	7.05	.23	1.84	4,600
Do	500,000	8.5	105.50	7.87	99.50	7.05	.82	6.56	22,960
May 20, 1971	350,000	8.5	105.50	7.87	99.50	7.05	.82	6.56	22,960
Do	350,000	8.5	105.50	7.87	99.50	7.05	.82	6.56	22,960
May 27, 1971	100,000	8.0	101.50	7.83	95.00	7.56	.27	2.16	2,160
Do	100,000	8.0	101.50	7.83	95.00	7.56	.27	2.16	2,160

Senator HART. Our next witness is Mr. I. Edwin Katz.

Mr. Katz, do you swear that the testimony you will give in this proceeding will be the truth, the whole truth, and nothing but the truth, so help you God.

Mr. KATZ. I do.

Senator HART. The record should reflect that Mr. Katz is appearing here today pursuant to a subpoena, and since you are appearing without a lawyer, we have the obligation, I think, to advise you of your rights.

Mr. Katz, you do have the right to refuse to answer any questions you feel might tend to incriminate you, and anything you do say can be used against you in any of the proceeding.

Certainly, you have the right to talk to a lawyer for advice before we can ask you any questions, and to have the lawyer with you during the questioning.

Now, if you desire to answer questions without a lawyer with you, you will still have the right to stop answering at any time; and also, you have the right to stop answering at any time until you talk to a lawyer.

I think the record should also reflect that, should you desire to refuse to answer or assert your rights, you are assured that this subcommittee will draw no adverse inference from that course of conduct.

I would add that no one else should draw such an inference either.

Mr. Katz, do you understand your rights?

Mr. KATZ. I do, sir.

Senator HART. And, are you willing to waive your rights and answer questions at this time?

Mr. KATZ. I am.

Senator HART. Thank you very much.

Mr. Katz, you did, in a response to a letter that was addressed to you, file with us a statement which I would hope you will read for the record, because it is very responsive.

STATEMENT OF I. EDWIN KATZ, FORMER CHAIRMAN OF THE BOARD, UNITED INSTITUTIONAL SERVICING CORP.

Mr. KATZ. May I, before I read the statement, refer to the statement made by Mr. Lyons concerning the UISC forming three pools while under suspension by FNMA?

Our records indicate that this suspension took effect in February of 1971. In the first place, under the GNMA rules, you may form a pool as long as you are an FHA-approved mortgagee.

In the second place, the date of suspension—and I read from a letter from FNMA, dated July 2, 1971:

DEAR MR. KATZ: You recently transferred the portfolio which you were servicing to Jackson National Bank.

In view of this, we are terminating your servicing duties under your servicing agreement with FNMA and GNMA, dated February 27, 1967, such termination to be effective immediately.

It is understood the foregoing action is by our mutual agreement.

Sincerely yours,

K. A. DUNCAN.

This is the only suspension in record and, therefore, all pools that were issued were issued prior to the date of that suspension.

Senator HART. Thank you. I am glad to get the record clear.

Mr. CHUMBRIS. Mr. Chairman, before Mr. Katz testifies, since our subcommittee is usually dealing with matters of a civil nature, and many times the colloquies are very informal, and I think in view of your admonition to the witness, maybe we should bear in mind, when we ask a question, that we give the witness plenty of opportunity to fully understand the question, and give him the opportunity that he is sure of the question before he makes any answer.

Senator HART. We will.

Mr. KATZ. The second point is that in my formal statement—and I have brought corrections with me—there are errors in dates on page 2, the 14th line from the bottom. It is 1969. It should be 1970.

It is the 14th line up from the bottom on the second page, and the second line up on the second page.

Senator HART. Mr. Katz, a little slower. That first correction in dates?

Mr. KATZ. They are all from 1969 to 1970. On page 2 it is the 14th line up. And when I read it, I will mention it again. And the second line up on page 2, on page 3 on the first line, there are two corrections changing 1969 to 1970.

Senator HART. Fine.

Mr. KATZ. In response to a letter of Senator Philip A. Hart dated April 19, 1972: One, as to a brief history of United Institutional Servicing Corp.:

United Institutional Servicing Corp. was organized on December 8, 1966. On or about November 1966, United Improvement and Investing Corp.—a publicly owned corporation listed on the American Stock Exchange, now known as UIP Corp.—the holding company of U.I. & I. Funding Corp., as well as other mortgage banking companies and companies in related fields, desired to dispose of U.I. & I. Funding Corp. in order to increase its cash position for further expansion within its subsidiaries and for liquidation of certain outstanding debts.

The highest bid for the company was received from a group of employees of U.I. & I. Funding Corp. Those employees of U.I. & I. Funding Corp. who had been with the company for a number of years or who held responsible positions were offered the opportunity to participate in the purchase.

A holding company was formed by the participating employees known as Capital Ventures, Inc., which acquired the stock of U.I. & I. Funding Corp. from United Improvement & Investing Corp. in December 1966.

I was chosen president and chief executive officer of this company.

In February 1967, United Institutional Servicing Corp. was merged with U.I. & I. Funding Corp., and became the continuing corporation. I was chosen chairman of the board and chief executive officer of United Institutional Servicing Corp.

The primary activity of United Institutional Servicing Corp. was the origination and sale of FHA and VA mortgages in the Metropolitan New York area. The company also originated conventional mortgages in the counties of Richmond, Rockland, and Orange.

In 1968, there was an outside offer made for the purchase of the company and some of the major stockholders were desirous of selling the company at this time.

Other of the employee stockholders felt that the time was not propitious and that the offer should be declined.

As a result, some of the major stockholders agreed to sell their interests, in whole or in part, to those who were opposed to the sale to the outside company on the basis of a part-cash and part-note transaction.

In May 1969, the company was sold to Arcs Industries, Inc., a publicly held company traded over the counter. In September 1971, Arcs Industries, Inc., sold Capital Ventures, Inc., and its subsidiaries to Empire National Bank.

Two. As to the sequence of events which led to the FNMA suspension:

It was the practice of United Institutional Servicing Corp. to close all loans approved by FHA or VA. In 1968 FHA adopted a policy to assist minorities to find suitable homes.

We at United felt that this was an exemplary program. Although we recognized that there might be an increase in delinquencies and foreclosures, it was our feeling that for every foreclosure at least 19 families would be enabled to find quarters far superior to those which they were presently occupying.

Thus, it was apparent that this program had great social value, since it would improve living conditions for minorities at a cost considerably less to the people of the United States than many other programs.

We underestimated the problem of servicing substandard loans and the ensuing defaults. Thus, our delinquencies with FNMA rose to slightly over 12 percent. Through an increase in our field and office staffs, we were able to reduce the delinquencies, but FNMA felt that we were still not exerting sufficient effort, so that in April 1969 we were placed on probation—see letters attached.

Shortly thereafter we were able to reduce our delinquencies to approximately 10 percent.

In March 1970, a postal strike was called in New York City, which gave the mortgagors the opportunity of claiming that payments had been made but that we had not received the same because they were in the mail.

The then head of our collection department collapsed and was taken to a hospital where it was found that he had bleeding ulcers. As a result of his illness, he was away from the office for a period of over 6 weeks. Delinquencies increased slightly to approximately 11½ percent and FNMA again threatened suspension.

The head of a collection agency was recommended to us, and though he had no prior mortgage experience, we felt that his collection experience—supported by our own mortgage servicing department, his efforts would enable us to improve our delinquency ratio. He was hired in June 1970, and at the end of June, I became seriously ill and was operated on and hospitalized for a month.

I returned to work on a part-time basis in September 1970. In November 1970, I felt well enough to travel to Philadelphia and arrange an appointment with the officials of FNMA.

At that time our delinquency ratio had been reported to me and to FNMA as being less than 8 percent.

During the course of our discussions, I was astonished to learn that an analysis made by FNMA showed that the true ratio was in excess of 18 percent, and that the summaries sent to FNMA and delivered to me by our collection head did not reflect the true figures.

May I add that FNMA had the backup statements with tab runs, as well as the summary, and they could have, at any time, by taking the tab runs have verified, or not verified, in this case what the delinquency ratio was.

We likewise, could have done the same thing, but we accepted the figures given to us, just as FNMA had done for a period of 5 months.

Senator HART. In that visit to Philadelphia that you were describing—where the 18-percent delinquency was revealed—had FNMA discovered that using these backup figures, or had they made some independent inquiry?

Mr. KATZ. No; they discovered it with our own figures.

I was also advised that reports concerning delinquencies had not been filed in several months.

Upon my return to the office, I confronted the head of our collection department with the information reported to me by FNMA.

He claimed that FNMA was in error. I asked him to bring to me a copy of all the collection reports which had been submitted to FNMA, and he reported that for some unknown reason his copies had disappeared.

I instructed him to send one of his assistants to FNMA to photostat their copies, and then to discuss the same with me when he had the full information.

His assistant went to FNMA and gathered the information. The head of our collection department left the office that day, and we have not seen him since, nor did we hear from him thereafter.

We terminated all employees who worked closely with him in the collection area. FNMA threatened immediate suspension and I asked that this step be deferred until we had an opportunity to clear up our problems or to dispose of the servicing.

We assured FNMA that we would not bid in future FNMA auctions, so that, in effect, the result would be similar to a suspension.

Our collection department had to be completely reorganized with new employees. We found that the new employees were unable to cope with the large number of arrears and the past-due reports which were required to be filed. Therefore, realizing that we would be unable to properly service the loans for a considerable period of time, I asked FNMA for permission to sell the servicing.

They authorized us to do this, and the servicing was transferred to Jacksonville National Bank on February 5, 1971.

Prior to the approval of the transfer of servicing, FNMA pointed out that there were approximately 12 mortgage loans originated over an 11-month period, on which either no payment or one payment had been received by FNMA.

FNMA pointed out that these delinquencies must have arisen from either poor underwriting or poor servicing and requested that we repurchase these mortgages.

I asked FNMA whether it would be willing to sell United the loans at the price for which they had purchased the same, and, after some

discussion, they agreed to do so. I was motivated to make such an offer for the following reasons:

I felt beholden to FNMA for their forbearance which permitted me to sell the servicing of the mortgages; I did not want to impose any impediments in the way of the consummation of the sale of such servicing nor FNMA's consent to the assignment of the servicing agreement; the discount price of these mortgages would probably cover the major part of any loss should foreclosure be necessary.

I therefore agreed to repurchase the mortgage provided we were permitted to take them by assignment over a period of 4 weeks. FNMA agreed to such arrangement. The repurchase was thus actually consummated over a 2-week period.

Three, as to the sale of mortgages by United to Inter-Island Mortgage Corp.

In December 1970, we received a printed notice sent out by Inter-Island Mortgage Corp. in which they stated that they had established a nationwide mortgage selling organization, and would be happy to handle any portfolio of mortgages which we might be interested in selling.

In January 1971, I called Inter-Island Mortgage Corp., and asked if they could sell \$1 million of 8½ percent FHA and/or VA mortgages at a price slightly below the prevailing market, since the package of mortgages offered for sale was below average quality.

We asked for a price of 103, which was approximately 1 percent below market at that particular time. Inter-Island offered 102½, and I agreed to transfer the servicing to Inter-Island if they were to sell these mortgages at a price of 103.

Inter-Island agreed to do so, and issued a commitment at a price of 103½—see attached letter—and we forwarded to Inter-Island a one-half of 1 percent nonrefundable fee. We subsequently sold them additional packages of mortgage loans on various dates.

Copies of the commitments issued by Inter-Island are annexed to this report.

(The documents follow. Testimony resumes on p. 302.)

Materials Relating to the Testimony of Edwin Katz

EXHIBIT 1

Inter-Island Mortgage Corporation Commitments

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
Philadelphia, Pa., April 11, 1969.

Re delinquencies.

Mr. EDWIN S. KATZ,
*Chairman of the Board, United Institutional Servicing Corp.,
New York, N.Y.*

DEAR MR. KATZ: For several months, your delinquency ratio has been completely unsatisfactory. Even in March, when delinquencies were computed as of the end of the month, your ratio was not reduced to an acceptable level.

This is notification to you that, effective immediately, your Company has been placed on probation for an indefinite period. Unless immediate and substantial improvement is shown, we will give serious consideration to suspending your privilege of bidding in the weekly FNMA auctions.

Please acknowledge receipt of this letter.

Sincerely yours,

KEVIN E. KEEGAN,
Regional Vice President.

UNITED INSTITUTIONAL SERVICING CORP.,
April 22, 1969.

Re delinquencies.

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
Philadelphia, Pa.

(Attention of Mr. Kevin E. Keegan, Regional Vice President).

DEAR MR. KEEGAN: We acknowledge receipt of your letter regarding delinquencies. I appreciate sincerely the opportunity afforded me to discuss our delinquency problems with you and Mr. Bickford.

As I explained to you, well over 90% of the mortgages which we are servicing for FNMA cover one and two-family homes located in the so-called "inner-core" areas. Thus, in Brooklyn, a majority of our loans are located in the Bedford-Stuyvesant, East New York, Brownsville and Bushwick sections. In these areas we originate more mortgages than all of our competitors combined.

Credit restrictions have been modified by the Federal Housing Administration so as to encourage and enable disadvantaged persons living in "hard-core" areas to become homeowners. Because of their limited resources and lack of experience as homeowners, there results a greater incidents of default.

We are making very serious and concentrated efforts to lower our delinquency rate. We have temporarily transferred six mortgage solicitors to the field to visit delinquents in order to induce them to correct their delinquencies. We are attempting to determine whether this saturation process will bring better results. We are also adding to our payroll three experienced collection men who, after receiving office training, will relieve our mortgage solicitors and be added to our present group of field delinquency men.

Our "delinquency chasers" have difficulty in calling on delinquent mortgagors since both husband and wife mortgagors are usually employed so that they can only be seen after 6:30 P.M. or on weekends.

However, because these areas have received adverse publicity, our field men are reluctant to go in these neighborhoods after dark and their collection efforts are seriously impeded. Where telephones exist, we telephone delinquents but many of these homes lack telephones, and others have unlisted telephones.

We are enclosing a form letter which is sent to each mortgagor about fifteen days after closing of title. We send these letters because we believe that at the closing, so much is being transacted that the instructions of our closers as to the vital importance of making their monthly payments promptly, is not absorbed.

As indicated, we will do our utmost to reduce the delinquency rate and we sincerely hope and believe that our efforts in this regard will produce improvement. However, may we respectfully point out that the suspension of our privilege of bidding and the bidding of other mortgage bankers placing loans in the same area, in the weekly FNMA auctions will materially affect the ability of the "disadvantaged," to improve their lot by acquiring home ownership. It would therefore be unfortunate if one department of the Government should shut the door to the "disadvantaged" by refusing to purchase their loans. This is precisely what would happen in the Brooklyn, Queens and Bronx areas where more than 90% of the mortgages are originated by mortgage bankers.

May I also point out that it is not the quality of our servicing but rather the quality of the mortgages which, as an approved FHA Mortgagee, and in accordance with the Government's wishes, we should accept. We service mortgages for a number of banking institutions in addition to the FNMA and all of these institutions are well satisfied with the quality of our servicing. Just last week, a savings bank in the North Central area of New York State have indicated their wish to transfer the servicing of four million dollars of their loans in Metropolitan New York to us, provided they can effect an amicable termination with their other servicers. We believe this speaks well of our servicing ability.

We are loath to reduce our origination of mortgages in the "hard-core" areas where the demand for mortgages is so great. However, if you are of the opinion that such action is required of us, we will naturally abide by your decision. However, we repeat our assurance that we will make every possible effort to reduce our delinquency rate.

Yours sincerely,

EDWIN KATZ,
Chairman of the Board.

P.S.—This is a duplicate of the copy as the original copy was not clear enough to xerox.

INTER-ISLAND MORTGAGEE CORP.,
Jamaica, N.Y., June 8, 1971.

Re \$200,000.00 8% loans. Price, 101½%—Expires 6-13-71; ½ of 1% nonrefundable commitment fee.

UNITED INSTITUTIONAL SERVICING CORP.,
New York, N.Y.

We agree to purchase from United Institutional Servicing Corp. \$200,000.00 F.H.A. and V.A. mortgage loans on one to four family homes at a price of 101½% on loans located in ----- subject to a ½ of 1% nonrefundable commitment fee, with servicing release to Inter-Island Mortgagee Corp.

You will deliver to our office at 90-04 161st Street, Jamaica, New York 11432 ----- days of this commitment the following documents, no later than June 13, 1971:

(a) original bond (b) a certified copy of the original recorded mortgage and a duly executed assignment thereof (c) Policy of Title Insurance insuring that said mortgage is a valid first lien on the property therein described, which said policy shall insure as mortgagee the holder of said note for an amount not less than the principal of the said note (d) survey (e) Policy of fire insurance with extended coverage with loss payable to us as mortgagee under the Standard Mortgagee Clause attached thereto (f) Statement of mortgage account (g) your certificate that all taxes have been paid and (h) copies of all other documents required by Federal Housing Administration so that it may issue its mortgage insurance certificate.

It is understood that you warrant that upon delivery of this mortgage (1) that said mortgage constitutes a valid first lien on the property therein described; (2) that there are no defaults under the terms of said mortgage; (3) that the amount of principal owing by the mortgagor as shown on the transcript of mortgage account is the then outstanding unpaid principal of the said note; that there are no brokers in this transaction, except the one retained by you and whose brokerage commission will be paid by you; and you will hold us harmless from any and all claims for brokerage.

The foregoing Agreement to purchase is subject to the following: (1) approval by us of the various documents described; (2) approval by us of the title to the mortgaged premises and security given at the time of closing, and of its purchase by us, and all matters of right, title and interest effecting the mortgage premises and mortgage thereon; (3) approval by our attorney of all of the papers submitted and the fact that in his opinion the loan is eligible for the Veterans Administration loan guaranty or Federal Housing Administration Mortgage insurance Certificate.

Upon receipt of the documents herebefore mentioned at our office at 90-04 161st Street, Jamaica, New York 11432 and after their acceptance by us as herein provided, we agree to pay and you agree to accept an amount equal to the amount specified on the first page of this letter plus accrued interest therein, as payment in full for the sale of such mortgage loan to us. Payment shall be made by us to you or your designee at the time of the delivery of the documents.

Please indicate your acceptance of this offer by returning an executed copy to us within ten (10) days so that we may make arrangements for closing.

Very truly yours,

STANLEY SIROTE, *President.*

INTER-ISLAND MORTGAGE CORP.,
Jamaica, N.Y., May 27, 1971.

Re \$100,000 8% FHA and VA loans expires 6-15-71—Price 101%, ½ of 1% nonrefundable commitment fee.

UNITED INSTITUTIONAL SERVICING CORP.,
New York, N.Y.

We agree to purchase from United International Servicing Corp. \$100,000.00 F.H.A. and V.A. mortgage loans on one to four family homes at a price of 101½% on loans located in Queens, Nassau, Suffolk, and Brooklyn subject to a ½ of 1% non refundable commitment fee, with servicing release to Inter-Island Mortgagee Corp.

You will deliver to our office at 90-04 161st Street, Jamaica, New York 11432 ----- days of this commitment the following documents, no later than June 15, 1971:

(a) original bond (b) a certified copy of the original recorded mortgage and a duly executed assignment thereof (c) Policy of Title Insurance insuring that said mortgage is a valid first lien on the property therein described, which said policy shall insure as mortgagee the holder of said note for an amount not less than the principal of the said note (d) survey (e) Policy of fire insurance with extended coverage with loss payable to us as mortgagee under the Standard Mortgagee Clause attached thereto (f) Statement of mortgage account (g) your certificate that all taxes have been paid and (h) copies of all other documents required by Federal Housing Administration so that it may issue its mortgage insurance certificate.

It is understood that you warrant that upon delivery of this mortgage (1) that said mortgage constitutes a valid first lien on the property therein described; (2) that there are no defaults under the terms of said mortgage; (3) that the amount of principal owing by the mortgagor as shown on the transcript of mortgage account is the then outstanding unpaid principal of the said note; that there are no brokers in this transaction, except the one retained by you and whose brokerage commission will be paid by you; and you will hold us harmless from any and all claims for brokerage.

The foregoing Agreement to purchase is subject to the following: (1) approval by us of the various documents described; (2) approval by us of the title to the mortgaged premises and security given at the time of closing, and of its purchase by us, and all matters of right, title and interest effecting the mortgage premises and mortgage thereon; (3) approval by our attorney of all of the papers submitted and the fact that in his opinion the loan is eligible for the Veterans Administration loan guaranty or Federal Housing Administration Mortgage insurance Certificate.

Upon receipt of the documents heretofore mentioned at our office at 90-04 161st Street, Jamaica, New York 11432 and after their acceptance by us as herein provided, we agree to pay and you agree to accept an amount equal to the amount specified on the first page of this letter plus accrued interest therein, as payment in full for the sale of such mortgage loan to us. Payment shall be made by us to you or your designee at the time of the delivery of the documents.

Please indicate your acceptance of this offer by returning an executed copy to us within ten (10) days so that we may make arrangements for closing.

Very truly yours,

STANLEY SIROTE. *President.*

INTER-ISLAND MORTGAGE CORP.,
Jamaica, N.Y., May 20, 1971.

Re \$350,000.00 8½% Loans, Expires 6-15-71, Price 105%, ½ of 1% nonrefundable commitment fee.

UNITED INSTITUTIONAL SERVICING CORP.,
New York, N.Y.

We agree to purchase from United Institutional Servicing Corp. \$350,000.00 F.H.A. and V.A. mortgage loans on one to four family homes at a price of 105% on loans located in Queens, Brooklyn, Nassau & Suffolk subject to a ½ of 1% non refundable commitment fee, with servicing release to Inter-Island Mortgagee Corp.

You will deliver to our office at 90-04 161st Street, Jamaica, New York 11432 ----- days of this commitment the following documents, no later than -----:

(a) original bond (b) a certified copy of the original recorded mortgage and a duly executed assignment thereof (c) Policy of Title Insurance insuring that said mortgage is a valid first lien on the property therein described, which said policy shall insure as mortgagee the holder of said note for an amount not less than the principal of the said note (d) survey (e) Policy of fire insurance with extended coverage with loss payable to us as mortgagee under the Standard Mortgagee Clause attached thereto (f) Statement of mortgage account (g) your certificate that all taxes have been paid and (h) copies of all other documents required by Federal Housing Administration so that it may issue its mortgage insurance certificate.

It is understood that you warrant that upon delivery of this mortgage (1) that said mortgage constitutes a valid first lien on the property therein described; (2) that there are no defaults under the terms of said mortgage; (3) that the amount of principal owing by the mortgagor as shown on the transcript of mortgage account is the then outstanding unpaid principal of the said note; that there are no brokers in this transaction, except the one retained by you and whose brokerage commission will be paid by you; and you will hold us harmless from any and all claims for brokerage.

The foregoing Agreement to purchase is subject to the following: (1) approval by us of the various documents described; (2) approval by us of the title to the mortgaged premises and security given at the time of closing, and of its purchase by us, and all matters of right, title and interest effecting the mortgage premises and mortgage thereon; (3) approval by our attorney of all of the papers submitted and the fact that in his opinion the loan is eligible for the Veterans Administration loan guaranty or Federal Housing Administration Mortgage Insurance Certificate.

Upon receipt of the documents herebefore mentioned at our office at 90-04 161st Street, Jamaica, New York 11432 and after their acceptance by us as herein provided, we agree to pay and you agree to accept an amount equal to the amount specified on the first page of this letter plus accrued interest therein, as payment in full for the sale of such mortgage loan to us. Payment shall be made by us to you or your designee at the time of the delivery of the documents.

Please indicate your acceptance of this offer by returning an executed copy to us within ten (10) days to that we may make arrangements for closing.

Very truly yours,

STANLEY SIROTE, *President.*

INTER-ISLAND MORTGAGEE CORP.,
Jamaica, N.Y., May 10, 1971.

Re \$500,000.00 7% Loans, Expires August 15, 1971, Price 97½% plus ½ of 1% non refundable commitment fee.

UNITED INSTITUTIONAL SERVICING CORP.,
New York, N.Y.
(Attention of Edwin Katz).

DEAR MR. KATZ: We agree to purchase from United Institutional Servicing Corp. \$500,000.00 F.H.A. and V.A. mortgage loans on one to four family homes at a price of 97½% on loans located in Queens, Nassau & Suffolk, subject to a ½% non refundable commitment fee, with servicing release to Inter-Island Mortgage Corp.

You will deliver to our office at 90-04 161st Street, Jamaica, New York 11432 ----- days of this commitment the following documents, no later than August 15, 1971:

(a) original bond (b) a certified copy of the original recorded mortgage and a duly executed assignment thereof (c) Policy of Title Insurance insuring that said mortgage is a valid first lien on the property therein described, which said policy shall insure as mortgagee the holder of said note for an amount not less than the principal of the said note (d) survey (e) Policy of fire insurance with extended coverage with loss payable to us as mortgagee under the Standard Mortgage Clause attached thereto (f) Statement of mortgage account (g) your certificate that all taxes have been paid and (h) copies of all other documents required by Federal Housing Administration so that it may issue its mortgage insurance certificate.

It is understood that you warrant that upon delivery of this mortgage (1) that said mortgage constitutes a valid first lien on the property therein described; (2) that there are no defaults under the terms of said mortgage; (3) that the amount of principal owing by the mortgagor as shown on the transcript of mortgage account is the then outstanding unpaid principal of the said note; that there are no brokers in this transaction, except the one retained by you and whose brokerage commission will be paid by you; and you will hold us harmless from any and all claims for brokerage.

The foregoing Agreement to purchase is subject to the following: (1) approval by us of the various documents described; (2) approval by us of the title to the mortgaged premises and security given at the time of closing, and of its purchase by us, and all matters of right, title and interest effecting the mortgage premises and mortgage thereon; (3) approval by our attorney of all of the papers submitted and the fact that in his opinion the loan is eligible for the Veterans Administration loan guaranty or Federal Housing Administration Mortgage Insurance Certificate.

Upon receipt of the documents herebefore mentioned at our office at 90-04 161st Street, Jamaica, New York 11432 and after their acceptance by us as herein provided, we agree to pay and you agree to accept an amount equal to the amount specified on the first page of this letter plus accrued interest therein, as payment in full for the sale of such mortgage loan to us. Payment shall be made by us to you or your designee at the time of the delivery of the documents.

Please indicate your acceptance of this offer by returning an executed copy to us within ten (10) days so that we may make arrangements for closing.

Very truly yours,

STANLEY SIROTE, *President.*

INTER-ISLAND MORTGAGE CORP.,
Jamaica, N.Y., May 10, 1971.

Re \$500,000.00 8½ Loans, Expires June 15, 1971—Price 105½, ½ of 1% non-refundable commitment fee.

UNITED INSTITUTIONAL SERVICING CORP.,
New York, N.Y.
(Attention of Edwin Katz).

DEAR MR. KATZ: We agree to purchase from United Institutional Servicing Corp. \$500,000.00 F.H.A. and V.A. mortgage loans on one to four family homes at a price of 105½% on loans located in Queens, Nassau & Suffolk subject to a ½% non refundable commitment fee, with servicing release to Inter-Island Mortgagee Corp.

You will deliver to our office at 90-04 161st Street, Jamaica, New York 11432 ----- days of this commitment the following documents, no later than June 15, 1971:

(a) original bond (b) a certified copy of the original recorded mortgage and a duly executed assignment thereof (c) Policy of Title Insurance insuring that said mortgage is a valid first lien on the property therein described, which said policy shall insure as mortgagee the holder of said note for an amount not less than the principal of the said note (d) survey (e) Policy of fire insurance with extended coverage with loss payable to us as mortgagee under the Standard Mortgagee Clause attached thereto (f) Statement of mortgage account (g) your certificate that all taxes have been paid and (h) copies of all other documents required by Federal Housing Administration so that it may issue its mortgage insurance certificate.

It is understood that you warrant that upon delivery of this mortgage (1) that said mortgage constitutes a valid first lien on the property therein described; (2) that there are no defaults under the terms of said mortgage; (3) that the amount of principal owing by the mortgagor as shown on the transcript of mortgage account is the then outstanding unpaid principal of the said note; that there are no brokers in this transaction, except the one retained by you and whose brokerage commission will be paid by you; and you will hold us harmless from any and all claims for brokerage.

The foregoing Agreement to purchase is subject to the following: (1) approval by us of the various documents described; (2) approval by us of the title to the mortgaged premises and security given at the time of closing, and of its purchase by us, and all matters of right, title and interest effecting the mortgage premises and mortgage thereon; (3) approval by our attorney of all of the papers submitted and the fact that in his opinion the loan is eligible for the Veterans Administration loan guaranty or Federal Housing Administration Mortgage Insurance Certificate.

Upon receipt of the documents heretofore mentioned at our office at 90-04 161st Street, Jamaica, New York 11432 and after their acceptance by us as herein provided, we agree to pay and you agree to accept an amount equal to the amount specified on the first page of this letter plus accrued interest therein, as payment in full for the sale of such mortgage loan to us. Payment shall be made by us to you or your designee at the time of the delivery of the documents.

Please indicate your acceptance of this offer by returning an executed copy to us within ten (10) days so that we may make arrangements for closing.

Very truly yours,

STANLEY SIROTE, *President.*

INTER-ISLAND MORTGAGEE CORP.,
Jamaica, N.Y., March 19, 1971.

Re \$350,000 FHA & VA Mortgages in the Five Boroughs and Nassau & Suffolk on 8½% mortgages only.

Mr. EDWIN KATZ,
United Institutional Servicing Corp.,
New York, N.Y.

DEAR MR. KATZ: We agree to purchase from United Institutional Servicing Corp. \$350,000. F.H.A. and V.A. mortgage loans on one to four family homes

at a price of 105½% on loans located in five boroughs and Nassau and Suffolk, subject to a ½ of 1% nonrefundable commitment fee, with servicing release to Inter-Island Mortgagee Corp.

You will deliver to our office at 90-04 161st Street, Jamaica, New York 11432 ----- days of this commitment the following documents, no later than June 30, 1971:

(a) original bond (b) a certified copy of the original recorded mortgage and a duly executed assignment thereof (c) Policy of Title Insurance insuring that said mortgage is a valid first lien on the property therein described, which said policy shall insure as mortgagee the holder of said note for an amount not less than the principal of the said note (d) survey (e) Policy of fire insurance with extended coverage with loss payable to us as mortgagee under the Standard Mortgagee Clause attached thereto (f) Statement of mortgage account (g) your certificate that all taxes have been paid and (h) copies of all other documents required by Federal Housing Administration so that it may issue its mortgage insurance certificate.

It is understood that you warrant that upon delivery of this mortgage (1) that said mortgage constitutes a valid first lien on the property therein described; (2) that there are no defaults under the terms of said mortgage; (3) that the amount of principal owing by the mortgagor as shown on the transcript of mortgage account is the then outstanding unpaid principal of the said note; that there are no brokers in this transaction, except the one retained by you and whose brokerage commission will be paid by you; and you will hold us harmless from any and all claims for brokerage.

The foregoing Agreement to purchase is subject to the following: (1) approval by us of the various documents described; (2) approval by us of the title to the mortgaged premises and security given at the time of closing, and of its purchase by us, and all matters of right, title and interest effecting the mortgage premises and mortgage thereon; (3) approval by our attorney of all of the papers submitted and the fact that in his opinion the loan is eligible for the Veterans Administration loan guaranty or Federal Housing Administration Mortgage insurance Certificate.

Upon receipt of the documents heretofore mentioned at our office at 90-04 161st Street, Jamaica, New York 11432 and after their acceptance by us as herein provided, we agree to pay and you agree to accept an amount equal to the amount specified on the first page of this letter plus accrued interest therein, as payment in full for the sale of such mortgage loan to us. Payment shall be made by us to you or your designee at the time of the delivery of the documents.

Please indicate your acceptance of this offer by returning an executed copy to us within ten (10) days so that we may make arrangements for closing.

Very truly yours,

STANLEY SIROTE, *President.*

INTER-ISLAND MORTGAGEE CORP.,
Jamaica, N.Y., March 19, 1971.

Re \$250,000. FHA & VA Mortgages in the Five Boroughs, Nassau & Suffolk on 7½% mortgages only.

Mr. EDWIN KATZ,
New York, N.Y.

DEAR MR. KATZ: We agree to purchase from United Institutional Servicing Corp. \$250,000 F.H.A. and V.A. mortgage loans on one to four family homes at a price of 100½% on loans located in the five boroughs, Nassau & Suffolk, subject to a ½ of 1% non refundable commitment fee, with servicing release to Inter-Island Mortgagee Corp.

You will deliver to our office at 90-04 161st Street, Jamaica, New York 11432-----days of this commitment the following documents, no later than June 30, 1971:

(a) original bond (b) a certified copy of the original recorded mortgage and a duly executed assignment thereof (c) Policy of Title Insurance insuring that said mortgage is a valid first lien on the property therein described, which said policy shall insure as mortgagee the holder of said note for an amount not less than the principal of the said note (d) survey (e) Policy of fire insurance with extended coverage with loss payable to us as mortgagee under the Standard Mortgagee Clause attached thereto (f) Statement of mortgage account (g) your certificate that all taxes have been paid and (h) copies of all other documents required by Federal Housing Administration so that it may issue its mortgage insurance certificate.

It is understood that you warrant that upon delivery of this mortgage (1) that said mortgage constitutes a valid first lien on the property therein described; (2) that there are no defaults under the terms of said mortgage; (3) that the amount of principal owing by the mortgagor as shown on the transcript of mortgage account is the then outstanding unpaid principal of the said note; that there are no brokers in this transaction, except the one retained by you and whose brokerage commission will be paid by you; and you will hold us harmless from any and all claims for brokerage.

The foregoing Agreement to purchase is subject to the following: (1) approval by us of the various documents described; (2) approval by us of the title to the mortgaged premises and security given at the time of closing, and of its purchase by us, and all matters of right, title and interest effecting the mortgage premises and mortgage thereon; (3) approval by our attorney of all of the papers submitted and the fact that in his opinion the loan is eligible for the Veterans Administration loan guaranty or Federal Housing Administration Mortgage insurance Certificate.

Upon receipt of the documents heretofore mentioned at our office at 90-04 161st Street, Jamaica, New York 11432 and after their acceptance by us as herein provided, we agree to pay and you agree to accept an amount equal to the amount specified on the first page of this letter plus accrued interest therein, as payment in full for the sale of such mortgage loan to us. Payment shall be made by us to you or your designee at the time of the delivery of the documents.

Please indicate your acceptance of this offer by returning an executed copy to us within ten (10) days so that we may make arrangements for closing.

Very truly yours,

STANLEY SIROTE, *President.*

INTER-ISLAND MORTGAGEE CORP.,
Jamaica, N.Y., March 11, 1971.

Re \$1,500,000. FHA & VA mortgages in Queens, Nassau & Suffolk on 8½% mortgage loans.

UNITED INSTITUTIONAL SERVICING CORP.,
New York, N.Y.
(Attention of Mr. Edward Katz).

We agree to purchase from United Institutional Servicing Corp. \$1,500,000 F.H.A. and V.A. mortgage loans on one to four family homes at a price of 105½% on loans located in Queens, Nassau & Suffolk subject to a ½% of 1% non refundable commitment fee, with servicing release to Inter-Island Mortgages Corp.

You will deliver to our office at 90-04 161st Street, Jamaica, New York 11432 _____days of this commitment the following documents, as follows: \$500,000 by April 15, \$500,000. by May 15, \$500,000. by June 15, 1971:

(a) original bond (b) a certified copy of the original recorded mortgage and a duly executed assignment thereof (c) Policy of Title Insurance insuring that said mortgage is a valid first lien on the property therein described, which said policy shall insure as mortgagee the holder of said note for an amount not less than the principal of the said note (d) survey (e) Policy of fire insurance with extended coverage with loss payable to us as mortgagee under the Standard Mortgagee Clause attached thereto (f) Statement of mortgage account (g) your certificate that all taxes have been paid and (h) copies of all other documents required by Federal Housing Administration so that it may issue its mortgage insurance certificate.

It is understood that you warrant that upon delivery of this mortgage (1) that said mortgage constitutes a valid first lien on the property therein described; (2) that there are no defaults under the terms of said mortgage; (3) that the amount of principal owing by the mortgagor as shown on the transcript of mortgage account is the then outstanding unpaid principal of the said note; that there are no brokers in this transaction, except the one retained by you and whose brokerage commission will be paid by you; and you will hold us harmless from any and all claims for brokerage.

The foregoing Agreement to purchase is subject to the following: (1) approval by us of the various documents described; (2) approval by us of the title to the mortgaged premises and security given at the time of closing, and of its purchase by us, and all matters of right, title and interest effecting the mortgage premises and mortgage thereon; (3) approval by our attorney of all of the papers submitted and the fact that in his opinion the loan is eligible for the Veterans Administration loan guaranty or Federal Housing Administration Mortgage insurance Certificate.

Upon receipt of the documents herebefore mentioned at our office at 90-04 161st Street, Jamaica, New York 11432 and after their acceptance by us as herein provided, we agree to pay and you agree to accept an amount equal to the amount specified on the first page of this letter plus accrued interest therein, as payment in full for the sale of such mortgage loan to us. Payment shall be made by us to you or your designee at the time of the delivery of the documents.

Please indicate your acceptance of this offer by returning an executed copy to us within ten (10) days so that we may make arrangements for closing.

Very truly yours,

STANLEY SIROTE, *President.*

RIDER ATTACHED TO AND MADE PART OF COMMITMENT LETTER DATED MARCH 11TH, 1971 INTER-ISLAND MORTGAGEE CORP.

QUALIFICATION OF INDIVIDUAL MORTGAGES

These mortgages will be purchased without further qualification other than they be fully guaranteed by the VA or, in other words, there be no impairment in the dollar guaranty of the Veteran-Borrower, and the FHA mortgages shall be fully insured.

We agree to the above amendment to commitment letter dated March 11, 1971.

INTER-ISLAND MORTGAGEE CORP.,
By _____, *President.*

INTER-ISLAND MORTGAGEE CORP.,
Jamaica, N.Y., March 8, 1971.

Re Purchase \$400,000. FHA/VA Mortgage Loans 8½%.

UNITED INSTITUTIONAL SERVICING CORP.,
New York, N.Y.
(Attention of Mr. Eddie Katz).

We agree to purchase from United Institutional Servicing Corp. \$400,000. F.H.A. and V.A. mortgage loans on one to four family homes at a price of 106% on loans located in Nassau, Suffolk, Kings, Queens, Bronx, Richmond, Westchester, and Rockland subject to a 1% non refundable commitment fee, with servicing release to Inter-Island Mortgagee Corp.

You will deliver to our office at 90-04 161st Street, Jamaica, New York 11432 _____ days of this commitment the following documents, no later than April 30, 1971:

(a) original bond (b) a certified copy of the original recorded mortgage and a duly executed assignment thereof (c) Policy of Title Insurance insuring that said mortgage is a valid first lien on the property therein described, which said policy shall insure as mortgagee the holder of said note for an amount not less than the principal of the said note (d) survey (e) Policy of fire insurance with extended coverage with loss payable to us as mortgagee under the Standard Mortgagee Clause attached thereto (f) Statement of mortgage account (g) your certificate that all taxes have been paid and (h) copies of all other documents required by Federal Housing Administration so that it may issue its mortgage insurance certificate.

It is understood that you warrant that upon delivery of this mortgage (1) that said mortgage constitutes a valid first lien on the property therein described; (2) that there are no defaults under the terms of said mortgage; (3) that the amount of principal owing by the mortgagor as shown on the transcript of mortgage account is the then outstanding unpaid principal of the said note; that there are no brokers in this transaction, except the one retained by you and whose brokerage commission will be paid by you; and you will hold us harmless from any and all claims for brokerage.

The foregoing Agreement to purchase is subject to the following: (1) approval by us of the various documents described; (2) approval by us of the title to the mortgaged premises and security given at the time of closing, and of its purchase by us, and all matters of right, title and interest effecting the mortgage premises and mortgage thereon; (3) approval by our attorney of all of the papers submitted and the fact that in his opinion the loan is eligible for the Veterans Administration loan guaranty or Federal Housing Administration Mortgage insurance Certificate.

Upon receipt of the documents herebefore mentioned at our office at 90-04

161st Street, Jamaica, New York 11432 and after their acceptance by us as herein provided, we agree to pay and you agree to accept an amount equal to the amount specified on the first page of this letter plus accrued interest therein, as payment in full for the sale of such mortgage loan to us. Payment shall be made by us to you or your designee at the time of the delivery of the documents.

Please indicate your acceptance of this offer by returning an executed copy to us within ten (10) days so that we may make arrangements for closing.

Very truly yours,

STANLEY SIROTE, *President.*

UNITED INSTITUTIONAL SERVICING CORP.,
New York, N.Y., January 28, 1971.

Mr. STANLEY SIROTE,
*President, Inter-Island Mortgagee Corp.,
Jamaica, N.Y.*

DEAR MR. SIROTE: We return herewith your commitment letter dated January 25th, 1971 regarding the purchase of \$1,000,000.00 FHA/VA Mortgage Loans together with our check to your order in the sum of \$5,000 as commitment fee.

In accordance with our conversation the following paragraph is to be considered as an amendment to said commitment letter:

"Qualification of Individual Mortgages—These mortgages will be purchased without further qualification other than they be fully guaranteed by the VA or, in other words, there be no impairment in the dollar guaranty of the Veteran-Borrower, and the FHA mortgages shall be fully insured."

Please sign a copy of this letter as evidence of your acceptance of the amendment to the commitment and return to the undersigned.

Yours truly,

BERNARD S. ROTH, *President.*

We do hereby agree to the above amendment to commitment letter dated January 25, 1971.

INTER ISLAND MORTGAGEE CORP.,
By _____, *President.*

INTER-ISLAND MORTGAGEE CORP.,
Jamaica, N.Y., January 25, 1971.

Re Purchase \$1,000,000.00 FHA/VA Mortgage Loans.

UNITED INSTITUTIONAL SERVICING CORP.,
New York, N.Y.
(Attention of Bernard Roth, President).

DEAR MR. ROTH: We agree to purchase from United Institutional Servicing Corp., \$1,000,000.00 F.H.A. and V.A. mortgage loans on one to four family homes at a price of 103½% on loans located in Nassau, Suffolk, Kings, Queens, Bronx, Richmond, Westchester & Rockland subject to a ½% non refundable commitment fee, with servicing release to Inter-Island Mortgagee Corp.

You will deliver to our office at 90-04 161st Street, Jamaica, New York 11432 within approximately 150 days of this commitment the following documents, no later than June 30, 1971:

(a) original bond (b) a certified copy of the original recorded mortgage and a duly executed assignment thereof (c) Policy of Title Insurance insuring that said mortgage is a valid first lien on the property therein described, which said policy shall insure as mortgagee the holder of said note for an amount not less than the principal of the said note (d) survey (e) Policy of fire insurance with extended coverage with loss payable to us as mortgagee under the Standard Mortgagee Clause attached thereto (f) Statement of mortgage account (g) your certificate that all taxes have been paid and (h) copies of all other documents required by Federal Housing Administration so that it may issue its mortgage insurance certificate.

It is understood that you warrant that upon delivery of this mortgage (1) that said mortgage constitutes a valid first lien on the property therein described; (2) that there are no defaults under the terms of said mortgage; (3) that the amount of principal owing by the mortgagor as shown on the transcript of mortgage account is the then outstanding unpaid principal of the said note; that there

are no brokers in this transaction, except the one retained by you and whose brokerage commission will be paid by you; and you will hold us harmless from any and all claims for brokerage.

The foregoing Agreement to purchase is subject to the following: (1) approval by us of the various documents described; (2) approval by us of the title to the mortgaged premises and security given at the time of closing, and of its purchase by us, and all matters of right, title and interest effecting the mortgage premises and mortgage thereon; (3) approval by our attorney of all of the papers submitted and the fact that in his opinion the loan is eligible for the Veterans Administration loan guaranty or Federal Housing Administration Mortgage insurance Certificate.

Upon receipt of the documents herebefore mentioned at our office at 90-04 161st Street, Jamaica, New York 11432 and after their acceptance by us as herein provided, we agree to pay and you agree to accept an amount equal to the amount specified on the first page of this letter plus accrued interest therein, as payment in full for the sale of such mortgage loan to us. Payment shall be made by us to you or your designee at the time of the delivery of the documents.

Please indicate your acceptance of this offer by returning an executed copy to us within ten (10) days so that we may make arrangements for closing.

Very truly yours,

STANLEY SIROTE, *President.*

INTER-ISLAND MORTGAGEE CORP.,
Jamaica, N.Y.

Re \$250,000 FHA and VA mortgages in the five boroughs, Nassau, and Suffolk on 8 percent mortgages only.

Mr. EDWIN KATZ,
United Institutional Servicing Corp.,
New York, N.Y.

DEAR MR. KATZ: We agree to purchase from United Institutional Servicing Corp. \$250,000 F.H.A. and V.A. mortgage loans on one to four family homes at a price of 102½% on loans located in the five boroughs, Nassau & Suffolk, subject to a ½ of 1% non refundable commitment fee, with servicing release to Inter-Island Mortgage Corp.

You will deliver to our office at 90-04 161st Street, Jamaica, New York 11432 ----- days of this commitment the following documents, no later than June 30, 1971:

(a) original bond (b) a certified copy of the original recorded mortgage and a duly executed assignment thereof (c) Policy of Title Insurance insuring that said mortgage is a valid first lien on the property therein described, which said policy shall insure as mortgagee the holder of said note for an amount not less than the principal of the said note (d) survey (e) Policy of fire insurance with extended coverage with loss payable to us as mortgagee under the Standard Mortgagee Clause attached thereto (f) Statement of mortgage account (g) your certificate that all taxes have been paid and (h) copies of all other documents required by Federal Housing Administration so that it may issue its mortgage insurance certificate.

It is understood that you warrant that upon delivery of this mortgage (1) that said mortgage constitutes a valid first lien on the property therein described; (2) that there are no defaults under the terms of said mortgage; (3) that the amount of principal owing by the mortgagor as shown on the transcript of mortgage account is the then outstanding unpaid principal of the said note; that there are no brokers in this transaction, except the one retained by you and whose brokerage commission will be paid by you; and you will hold us harmless from any and all claims for brokerage.

The foregoing Agreement to purchase is subject to the following: (1) approval by us of the various documents described; (2) approval by us of the title to the mortgaged premises and security given at the time of closing, and of its purchase by us, and all matters of right, title and interest effecting the mortgage premises and mortgage thereon; (3) approval by our attorney of all of the papers submitted and the fact that in his opinion the loan is eligible for the Veterans Administration loan guaranty or Federal Housing Administration Mortgage insurance Certificate.

Upon receipt of the documents herebefore mentioned at our office at 90-04 161st Street, Jamaica, New York 11432 and after their acceptance by us as herein provide, we agree to pay and you agree to accept an amount equal to the amount

specified on the first page of this letter plus accrued interest therein, as payment in full for the sale of such mortgage loan to us. Payment shall be made by us to you or your designee at the time of the delivery of the documents.

Please indicate your acceptance of this offer by returning an executed copy to us within ten (10) days so that we may make arrangements for closing.

Very truly yours,

STANLEY SIROTE, *President.*

INTER-ISLAND MORTGAGEE CORP.,
Jamaica, N.Y.

Re \$250,000 FHA and VA mortgages in the five boroughs, Nassau, and Suffolk on 7 percent mortgages only

Mr. EDWIN KATZ,
United Institutional Servicing Corp.,
New York, N.Y.

DEAR MR. KATZ: We agree to purchase from United Institutional Servicing Corp. \$250,000 F.H.A. and V.A. mortgage loans on one to four family homes at a price of 97½% on loans located in the five boroughs, Nassau & Suffolk, subject to a ½ of 1% nonrefundable commitment fee, with servicing release to Inter-Island Mortgagee Corp.

You will deliver to our office at 90-04 161st Street, Jamaica, New York 11432 ----- days of this commitment the following documents, no later than June 30, 1971:

(a) original bond (b) a certified copy of the original recorded mortgage and a duly executed assignment thereof (c) Policy of Title Insurance insuring that said mortgage is a valid first lien on the property therein described, which said policy shall insure as mortgagee the holder of said note for an amount not less than the principal of the said note (d) survey (e) Policy of fire insurance with extended coverage with loss payable to us as mortgagee under the Standard Mortgagee Clause attached thereto (f) Statement of mortgage account (g) your certificate that all taxes have been paid and (h) copies of all other documents required by Federal Housing Administration so that it may issue its mortgage insurance certificate.

It is understood that you warrant that upon delivery of this mortgage (1) that said mortgage constitutes a valid first lien on the property therein described; (2) that there are no defaults under the terms of said mortgage; (3) that the amount of principal owing by the mortgagor as shown on the transcript of mortgage account is the then outstanding unpaid principal of the said note; that there are no brokers in this transaction, except the one retained by you and whose brokerage commission will be paid by you; and you will hold us harmless from any and all claims for brokerage.

The foregoing Agreement to purchase is subject to the following: (1) approval by us of the various documents described; (2) approval by us of the title to the mortgaged premises and security given at the time of closing, and of its purchase by us, and all matters of right, title and interest effecting the mortgage premises and mortgage thereon; (3) approval by our attorney of all of the papers submitted and the fact that in his opinion the loan is eligible for the Veterans Administration loan guaranty or Federal Housing Administration Mortgage insurance Certificate.

Upon receipt of the documents herebefore mentioned at our office at 90-04 161st Street, Jamaica, New York 11432 and after their acceptance by us as herein provided, we agree to pay and you agree to accept an amount equal to the amount specified on the first page of this letter plus accrued interest therein, as payment in full for the sale of such mortgage loan to us. Payment shall be made by us to you or your designee at the time of the delivery of the documents.

Please indicate your acceptance of this offer by returning an executed copy to us within ten (10) days so that we may make arrangements for closing.

Very truly yours,

STANLEY SIROTE, *President.*

Senator HART. Thank you very much.

Mr. Blum, any questions?

Mr. BLUM. Mr. Katz, let us first ask you a couple of questions about the history of United prior to the purchase of its parent company by the Empire National Bank.

In the early 1960's did United engage in making conventional mortgage loans in Brooklyn and Queens?

Mr. KATZ. We did.

Mr. BLUM. Did originate and service these?

Mr. KATZ. Originated and serviced conventional mortgages.

Mr. BLUM. Who did it sell the conventional mortgages to?

Mr. KATZ. Primarily to upstate savings banks. Do you want the specific banks?

Mr. BLUM. Some specific ones.

Mr. KATZ. Rhinebeck Savings Bank, that is in Rhinebeck, N.Y.; City and County Savings Bank in Albany; the Mechanics Exchange in Albany; the Amsterdam Savings Bank in Amsterdam; the Rome Savings Bank.

Mr. BLUM. Essentially, these were smaller savings banks in upstate communities?

Mr. KATZ. With one exception, Erie County which is in Buffalo, which is a sizable bank, which was the only exception.

Mr. BLUM. Who in the company had the responsibility of handling the sales to those banks at that time? Was that your responsibility?

Mr. KATZ. That was my responsibility.

Mr. BLUM. You did not handle the servicing of them though, did you?

Mr. KATZ. No.

Mr. BLUM. You had no relationship on servicing?

Mr. KATZ. No.

Mr. BLUM. What was the size of United's conventional mortgages servicing portfolio in about 1965? Do you have a rough estimate of that?

Mr. KATZ. I would say about, in 1965, about \$45 million.

Mr. BLUM. That is the conventional?

Mr. KATZ. Of that, only \$8 million were conventional.

Mr. BLUM. Was there a developing problem of those conventional loans as neighborhoods in Brooklyn began to deteriorate with disturbances in 1967?

Mr. KATZ. As you say, the neighborhoods deteriorated. There occurred from time to time abandonment. There were occasions where houses were not kept properly, and there were a large number of defaults.

Mr. BLUM. What happened when something like that would occur, and you would notify one of these savings banks that held the mortgage that the mortgage was now in some sort of difficulty?

Did you discuss ways of getting out of that difficulty?

Mr. KATZ. Some of the institutions—and, incidentally, they were all inspected by their trustees. This was not a paper buy. They looked at each and every one of the houses before they bought them.

Some of the institutions, realizing the problems that had arisen and that future problems would arise, asked us if we could sell their entire portfolios at substantial discounts. This we were unable to do.

However, with the relaxation of requirements by FHA at a later date, many of these loans, particularly the 2- to 4-family houses, became eligible for FHA insurance.

Mr. BLUM. And that is called in the trade a conversion, is it not?

Mr. KATZ. Yes.

Mr. BLUM. Where you take the conventional mortgage and replace it with an FHA insured or VA mortgage.

Mr. KATZ. What usually happened was the mortgage was sold by the bank—not usually, but in many instances, it was sold by the bank to someone, to an operator, speculator, or call him what you wish. And refinancing took place thereafter.

In some instances, the mortgages were held until such time as FHA mortgages replaced them, and then the bank was paid off.

Mr. BLUM. And the key to this process was taking place, was an opening of the door to the new programs you felt, in 1968, when HUD seemed to relax these standards?

Mr. KATZ. HUD actually relaxed the standards.

Mr. BLUM. Would you mind tracing for the subcommittee the history of the Delta Capital Corp.?

Mr. KATZ. The Delta Capital Corp. was formed, primarily, to meet competition with another institution who had another company which was making interim loans.

We found that our brokers and our operators were demanding these loans, and said, "If you cannot give them to us, why, we will go to a company that can."

Mr. BLUM. I take it, then, that other company was Eastern Service Corp.

Mr. KATZ. Jet Warehouse, which is a subsidiary of Eastern Service.

We did this reluctantly, because it was not the type of business we wanted to be in. And the company was formed with a small capital to meet the requirements, the immediate requirements at that time. I think the capital was something like \$50,000.

However, the demand grew a great deal and the capital was increased to \$80,000 and still this was not sufficient, and we then sought outside sources.

Mr. BLUM. By outside sources, you mean individuals?

Mr. KATZ. Individuals, which included individuals within the company, individuals without the company and, I might say at this time if I may—

Mr. BLUM. Yes, sir; please do.

Mr. KATZ. An article appeared in the Times this morning which would give the impression that I, myself, and my family profited a great deal through the Delta operation.

I received interest of 15 percent on the moneys that we had outstanding, which sounds like a lot. But due to the fact that I am in the upper brackets which are fairly high, I could have done much better by going into New York City bonds at the 7.25 to 7.50 percent rate.

I did this primarily to promote the business for the company, rather than for the profit arising out of it.

Mr. BLUM. Let me go back to the question of the amount you received. The loans, we were told, made to the operators at rates of 18, 21 percent. You received 15 percent. Where did the other money go? What happened to that differential?

Mr. KATZ. Originally, the rates were 18 percent, and they were later increased to 21 percent. These were short-term loans. They were supposed to be short, but sometimes they ran long.

There was a lot of paperwork that was involved in the closing, and the servicing during that period of time. And Delta Capital retained 3 percent for its services.

Mr. BLUM. We received for the record yesterday the interim lending records of Delta. There is a comment in the record that they had a guarantee of 3 percent. What did that mean?

Mr. KATZ. Since I did not desire or have the opportunity of examining these properties, one of the officers of the company who was much more familiar with this area agreed to insure me against loss for the other 3 percent.

In other words, when the rate was 18 percent, Delta did not receive anything. When it went to 21 percent, which we raised it for that reason, Delta received 3; the other officer received 3 percent for his guarantee; and I received 15 percent, net.

Mr. BLUM. And the other officer was Bernard Roth?

Mr. KATZ. That is correct.

Mr. BLUM. You mentioned that these loans were made to benefit the corporation. I take it that whenever one of these interim loans were made, the eventual FHA mortgage was placed with United.

Mr. KATZ. That is true. The original plan, sometimes it did not work out, was that they would not receive more than one loan for every 10 loans they closed with us.

Now, in some instances where we dealt, there was less than 1 every 10. But there were many instances where they were more than the average of 10 percent.

Mr. BLUM. So it was only a limited number of transactions where they would get that interim financing?

Mr. KATZ. Correct.

Mr. BLUM. If you bring us 10 deals, we will be able to finance you on one?

Mr. KATZ. That is correct; although, as I say, this rule was not adhered to strictly. But it still was—the number of loans we received were far more than the number of Delta loans.

Mr. BLUM. I gather in those other instances, the broker did not have to actually close to buy the house. He either put down a deposit on the contract, or arranged a simultaneous closing, the double closing as it is called, and he did not need the interim financing.

Mr. KATZ. Yes; that is right.

Mr. BLUM. Then Delta was owned by the same shareholders as United, was it not at the time of its formation?

Mr. KATZ. No. There were many of the shareholders in United that were shareholders of Delta. The proportions of interest were different, and there were some shareholders of Delta who were not shareholders of United.

Mr. BLUM. Arcs purchased United. What was the date of that?

Mr. KATZ. May 22, 1969.

Mr. BLUM. And it did not purchase Delta at that time. The shareholders of Delta still retained Delta; is that correct?

Mr. KATZ. When Arcs purchased United, they had an option to purchase Delta, and that was part of their contract.

Mr. BLUM. They did not exercise their first option. They only exercised it later on.

Mr. KATZ. They exercised it before the option ran out.

Mr. BLUM. When did they exercise it?

Mr. KATZ. In January of 1971.

Mr. BLUM. That would be about 8 months prior to negotiations for sale to Empire National; is that correct?

Mr. KATZ. That is correct.

Mr. BLUM. Was that exercise of the option in anticipation of the sale of United?

Mr. KATZ. No. It was because there was a conflict of interest due to the fact that Delta was also an approved mortgagee, and it would be possible for the principals of the company to operate for their own benefit.

It was not done that way. Arcs had to do it because if they did not exercise the option, there was no way of preventing us from doing it in the future.

Mr. BLUM. When did Arcs' officials become aware of United's trouble with FNMA?

Mr. KATZ. We received a letter from FNMA advising us of probation in the early part of April. I think it was April 12, 1969, at which time negotiations—April 11, 1969, at which time negotiations were going on with Arcs for the sale of the company.

We called the letter to their attention, and they provided in their contract certain escrow funds to be held in connection with the sale of the company.

Mr. BLUM. Did Arcs ever indicate that one of the reasons it was selling United was the difficulty it was having with FNMA and the indications that it may have been in trouble at United? Was that a reason for Arcs' selling the company, to your knowledge?

Mr. KATZ. No; that was not the reason.

The reason that Arcs sold Capital Ventures, the holder of the two companies, was due to the fact that they had acquired a Wall Street house known as Sassower, Jacobs & Schneider, and the New York Stock Exchange provided they could only buy 20 percent of that company as long as the total income from the Wall Street operation was less than the income from their other companies. And since the Wall Street operation, the gross profit, the net profit is very close to the total income the various companies held by Arcs far exceeded the amount of the income, the gross income, of Sassower, Jacobs & Schneider.

Arcs had disposed of Belmont Electronics, and another Arcs company. I do not remember the exact name of it. They had disposed of Tri-Can Perforators and ourselves. They had disposed of all of their subsidiaries in order to enter into this deal with Sassower, Jacobs & Schneider. And they disposed of them all approximately at the same time; Tri-Can being their latest one, which was very recent.

Mr. BLUM. Was United audited frequently by FHA?

Mr. KATZ. Not frequently. It was once every 4 or 5 years.

Mr. BLUM. And what would that audit attempt to determine?

Mr. KATZ. Escrow money, charges, yes; that was the principal thing.

Mr. BLUM. You were never audited to determine the quality of your processing or sampled to see what your procedures were in processing or matters of that nature?

Mr. KATZ. Not to my knowledge.

Mr. BLUM. Was United ever reprimanded or criticized by FHA?

Mr. KATZ. Well, there are always items on which questions were raised as to the propriety of certain small charges.

Mr. BLUM. This would be in the course of the audit?

Mr. KATZ. Well, in a letter that was written in the course of the audit.

Mr. BLUM. Would you mind describing for us what your duties were at United prior to your illness? What was your function at the company?

Mr. KATZ. Well, I was the chief executive officer. I was responsible for the entire operation, but primarily I was responsible for the commercial bank contacts, savings bank contacts, and generally the supervision.

Mr. BLUM. Did your duties include contacts with FHA officials in Hempstead?

Mr. KATZ. No.

Mr. BLUM. Did they include contacts with brokers, brokerage dealers, and operators?

Mr. KATZ. No.

Mr. BLUM. In dealings with banks who purchased mortgages, did you find some of the purchasing banks were more discriminating than others in the mortgages they purchased?

Mr. KATZ. Yes.

Mr. BLUM. Can you tell us what it means when a bank buys an FHA or VA mortgage with the right of selection?

Mr. KATZ. Well, each bank has their own rules and regulations, and the right of selection means they have the right to reject a mortgage which you offer to them.

Banks will have certain rules and regulations concerning income. Some banks require that the income be at least five times the carrying charges. Some banks will include a wife's income if she is a registered nurse or some profession of that sort. Other banks will include wife's income if she is of an age where she is not likely to be childbearing.

Other banks will include a wife's income where she has children; where the mother is taking care of them.

Some banks accept overtime on a partial basis. Other banks refuse to accept it at all. Then the banks have requirements as to location of properties. Some require what they call prime area, and generally speaking, a prime area is where minorities do not exist.

They also restrict the number of families in the house—a preferable house appears to be a one-family house. Some banks require that the houses have at least three bedrooms and not less than 900 square feet or 1,000 square feet.

These are the various types of requirements. Each one varies when they are buying on a selective basis.

Mr. BLUM. What might the price differential be for the right of selection? How much more will the bank buy with the right of selection? How much will they pay for a mortgage than a bank that will take anything you have?

Mr. KATZ. That would depend, in part, on the price of the mortgages.

In other words, where the discount is greater, the spread becomes less because they have less likelihood of loss.

If you are selling at par, and you have a bad loan, then you suffer a substantial loss on it.

Mr. BLUM. Is there a premium when the spread is quite large?

Mr. KATZ. Yes. In the case of a discount where it is eight points, it does not have to be that great. I would say it varies somewhere between one-half and two points, depending on the bank, the qualities they demand, and the times.

Mr. BLUM. When a bank calls you and says, "We would like to buy \$3 million worth of prime paper"—and by prime, I mean prime locations—how do you know which location they are talking about?

Mr. KATZ. Well, probably the first deal we make with them we do not know what it is, and we submit loans, and they knock out a certain group. And by the end of the first deal we know what they want.

Mr. BLUM. They are the ones that decide what prime location means and you kind of sense it after they take a couple of offerings, and you know the next time around when they say prime, they mean an area where there are no Puerto Ricans or blacks.

Mr. KATZ. That is correct.

Mr. BLUM. Can you explain for us the term "yield to maturity"?

Mr. KATZ. When mortgages are bought at a discount, the determination of the return to the bank is based on the interest rate that the mortgage bears, plus the allocation of that discount over a period of time.

Generally speaking, most banks do not buy on yield to maturity. They buy on a 12-year payout basis, and a rough calculation is that for each point discount, their yield is increased by one-eighth of 1 percent.

If they were to buy at 96 a 7-percent loan, their yield would be 7.5 percent.

Mr. BLUM. If the loan is foreclosed very quickly, though, the yield to maturity increases sharply.

Mr. KATZ. If the loan is foreclosed in 1 year and it is a 7-percent loan and they bought it at a 6-percent discount, the yield to maturity is 13 percent, less expenses. And there are expenses. There is a loss of interest and the loss on foreclosure.

Mr. BLUM. There are expenses, but it is still a significantly greater yield than perhaps could be obtained if the mortgage ran through its term.

Mr. KATZ. That depends on the price they pay for it. If they bought it at 98, the answer would be no.

Mr. BLUM. But if the discount is deep enough, there is considerable profit possibility.

When a bank asks you to select top quality paper for it, how do you go about selecting the paper? Is that pretty much the process you described, you try some of them and see how it sits?

Mr. KATZ. That is right.

Mr. BLUM. Do banks which buy mortgages for servicing, generally, insist on higher quality paper?

Mr. KATZ. I would generally say that is so. It is a generalization, but generally it is so because when they buy, when they have to service themselves they want as few servicing problems as possible.

Where they permit us to service, they do not care how much effort we put in. They care, but they do not care how much it costs us.

Mr. BLUM. Will FNMA take anything you put at its door?

Mr. KATZ. At one time we submitted loans to them and they approved both location and credit, and I would say it was probably around 19—well, it was just before the auction started.

Mr. BLUM. Before?

Mr. KATZ. Before the FNMA auction started, that they then said the responsibility for the quality of the loan is on the originator. "We will take anything you give us, but you see that they are good."

Mr. BLUM. In effect, they said, "If it has the FHA or VA guarantee, we will take it."

Mr. KATZ. Right.

Mr. BLUM. And, as a consequence, the FNMA price for mortgages, is it generally lower than most other prices?

Mr. KATZ. It depends. At the present time it is lower. It has been lower for quite a time. I would say, generally, on a good market—and when I say a good market, that means where the discounts are less—the FNMA price is usually below the current market.

Where the market is bad, the FNMA price is probably above what you could sell a comparable mortgage for to an institution.

Mr. BLUM. Marketing good or bad, you mean the availability of funds?

Mr. KATZ. That is right, which determines discount.

This is the purpose—to provide a secondary market so we would not have the bottom fall out.

Mr. BLUM. In the market where there are plentiful funds, is there not a tendency for FNMA to become a dump for mortgages that no one else wants to buy?

Mr. KATZ. I would say that is true.

Mr. BLUM. In your statement you recount the events leading to the suspension of United by FNMA. You say the head of your collection department reported delinquencies of 8 percent, and they were later discovered to be 18 percent. You were later surprised.

Would you not be able to tell immediately by looking at the company's cash balance and the size of the checks to FNMA?

Mr. KATZ. I do not believe we could have, because we were selling a large number of mortgages to FNMA each month. I would say probably it was an average of \$3 million a month to FNMA. So you really could not tell by looking at it.

But it could have been determined very easily by taking our tab runs and checking them out. Now, this was not done.

A summary sheet prepared by the collection man was accepted and, in addition to which, FNMA had a regulation that where forbearance is granted on a loan it need not be treated as a delinquency.

The collection head just put down forbearance, in almost every instance. I think if you really analyzed it, you will find the 8 percent is correct. But he just wrote "forbearance."

Forbearance under FNMA means an actual agreement between the mortgagor and the servicer whereby the arrears will be liquidated over a period of time, and with a certification or statement by the servicer that they feel this forbearance will result in the actual bringing of the loan current.

But our man just put forbearance, and that was all.

Mr. BLUM. He did not have an agreement, in other words?

Mr. KATZ. He may have had a few agreements, but not a material number.

Mr. BLUM. What was the name of the fellow who headed the collection department who disappeared?

Mr. KATZ. John Cory.

Mr. BLUM. Did FNMA ever raise questions with you about the handling of escrow funds; that is, tax escrow funds, particularly those to be paid to the city of New York?

Mr. KATZ. No, they did not. They assumed everything was in order.

Mr. BLUM. Was there ever a problem about the payment of real estate taxes?

Mr. KATZ. Yes. At my instructions, which were probably in hindsight wrong, I instructed where any loan was in arrears; where there were not sufficient funds in the account, not to make the payments, because to get the refund from Fannie Mae was a complicated situation.

You have to file reports and have to allocate the advances over a period of time, with interest, and change all your billing, and we had so many problems as it was that I just did not want to do that.

And, as a result, not only the ones that were in arrears were not paid, there were many instances—there were ones not in arrears that were not paid.

Mr. BLUM. You said you asked Fannie Mae for permission to sell the servicing. Didn't Fannie Mae want you to sell the servicing?

Mr. KATZ. Oh, yes, when I asked for permission to sell servicing, this was because Fannie Mae had indicated to us that we had to straighten the matter out or they were canceling the servicing.

This was a request that they didn't have to give us, grant us, but they did and they were most cooperative in it, and the answer is that if we didn't sell it, they would have canceled us out.

Mr. BLUM. Did Fannie Mae suggest possible buyers for that portfolio to you?

Mr. KATZ. Fannie Mae had stated that Jacksonville National Bank had recently purchased an interest in Springfield Equities in New York, and they felt that they were very desirous of expanding their portfolio in the New York area and they might be the logical people to contact, and I contacted them.

Mr. BLUM. Had you or any official of United been approached by other mortgage companies to purchase that portfolio?

Mr. KATZ. Yes.

Mr. BLUM. Who approached you?

Mr. KATZ. Nobody approached me, but Louis Bernstein of Eastern Servicing had called the president of Arcs and had requested that they be given an opportunity to purchase the servicing; that they would pay a higher price than anyone else.

Mr. BLUM. And why didn't you want to sell it to them?

Mr. KATZ. They were a competitor and we did not want them to gather all the information that was contained in the file, which would give them a means with our brokers.

And, secondly, there was no doubt in my mind, if they had taken this servicing, that they would have broadcast to the entire field that they had bailed us out and we were in trouble, and so forth, and all business should come to them.

Mr. BLUM. What did Jacksonville National Bank pay you for that portfolio?

Mr. KATZ. They paid us \$225,000.

Mr. BLUM. Why would a portfolio be in trouble, when it was worth that amount of money? Is servicing generally worth it?

Mr. KATZ. Servicing generally depends on the average amount of the mortgage and the quality of the servicing and the area that it is in, and will range in value from 1 percent, and there are instances, to as much as 2 percent, that has been paid. But 1 percent and $1\frac{1}{2}$ percent is probably the value, so this servicing on the face of being quality servicing would have been worth probably \$1 million to \$1.5 million.

However, it wasn't, and they had two purposes. They wanted first of all to go over the \$1 billion mark, which this permitted them to do, and secondly, they did want to expand in the New York area and this gave them a big start.

Mr. BLUM. The ways that I gather a mortgage company makes money out of servicing is collecting a service fee from the homeowner as well as from the buyer of the mortgage, is that correct, if you are servicing?

Mr. KATZ. We collected from the investor, the buyer.

Mr. BLUM. In addition to that servicing fee, which can vary depending on the negotiations, you also have the right to control the escrow account, at least determine where it is to be deposited; is that correct?

Mr. KATZ. That is correct in almost all instances, yes.

Mr. BLUM. In your discussions with Fannie Mae, did the quality of United's origination, as well as its servicing problem, come up?

Mr. KATZ. Yes, it did.

Mr. BLUM. What did Fannie Mae have to say about the origination? What were their comments?

Mr. KATZ. I pointed out to Fannie Mae—and there is a letter here which outlines it—that I felt a social purpose was being accomplished through the origination of mortgages in disadvantaged areas, and the position of Fannie Mae was, "You gave us the loan; you see to it that it is good." These are practically the words they used: "We are not interested in social purposes."

Mr. BLUM. You mentioned Fannie Mae asked you to repurchase a number of loans you sold them which went into immediate foreclosure.

Is that repurchase required by your contract with Fannie Mae?

Mr. KATZ. No.

Mr. BLUM. Doesn't Fannie Mae usually retain the mortgage in foreclosure, they capture yield to maturity?

Mr. KATZ. They usually retain it.

Mr. BLUM. Why do you think they insisted that you take these 12 back?

Mr. KATZ. The primary reason was that no payments were made at all, and their statement to me was, "Either your underwriting was bad or servicing was bad, and we feel you should take these 12 loans," and as I outlined in my formal statement, the discounts on them ranged very close to 4 percent, and we would not suffer any loss on them.

And I was beholden to Fannie Mae because they were permitting me to sell the servicing, and I did not want to do anything which might create a degree of animosity where they would say, "We are not going to permit you to sell."

Mr. BLUM. Did Fannie Mae tell you it was reporting the 12 mortgage loans to HUD in Washington, reporting this incident to HUD in Washington?

Mr. KATZ. No; they did not.

Mr. BLUM. What was the approximate date of that repurchase transaction?

Mr. KATZ. I believe it was February 10.

Mr. BLUM. What year?

Mr. KATZ. 1971.

Mr. BLUM. 1971?

Mr. KATZ. The discussion—the letter reads, from Fannie Mae, “that this was brought to your attention when you visited our office on February 10.” The letter is dated February 16, outlining the mortgages they desired us to repurchase.

Mr. BLUM. Approximately a year and 2 months has gone by since the date of that.

Have you ever been contacted by any official of FHA or HUD with respect to those 12 mortgages?

Mr. KATZ. No. May I point out one thing? We are talking about a dozen loans here and there were many more defaults, but it sounds like 12 loans totaling roughly \$250,000, which is a lot.

But during the same period, we sold a total of \$26,813,000 worth of loans to Fannie Mae.

When you take it in that perspective, it isn't that substantial.

Mr. BLUM. I appreciate your pointing that out.

Can you tell us what the relationship of R. & W. Associates was to United?

Mr. KATZ. R. & W. Associates were our largest account, by far. They probably closed \$10 million to \$12 million worth of loans out of an average annually which ran anywhere from \$60 million to \$72 million.

Mr. BLUM. Was R. & W. an authorized affiliate of United in the sense that it had the right to originate and come to United for the closing?

Mr. KATZ. No.

Mr. BLUM. Would it have been proper for R. & W. to handle verifications and deposits?

Mr. KATZ. It was not only not proper, it was not done.

Mr. BLUM. How were you certain? You say that with such certainty.

Mr. KATZ. The reason I say it with such certainty, there was only one girl who was assigned to R. & W. who handled all of his work. Our practice was to assign a particular girl to brokers so they would know to whom to make the telephone calls.

Mr. BLUM. In this case, the person your are referring to is Lowell Wiernerman, who was the principal in R. & W., and there was one girl at United who personally handled his account?

Mr. KATZ. That is right, and very recently she was examined under oath by Mr. Lomenzo's office, in which she stated specifically that she sent out all verifications of deposits and employment herself. I accept her word for it.

Mr. BLUM. I take it that this processing through that one girl was not unusual. As you say, you assigned brokers to particular people in the processing department. It was just the volume was so large that this girl was doing nothing but R. & W. work?

Mr. KATZ. That is correct.

Mr. BLUM. Did you suspend any brokers prior to the purchase of United by Empire; did you tell any brokers, "We don't want to do business with you"?

Mr. KATZ. That is right.

Mr. BLUM. Did you suspend Celia Carrero?

Mr. KATZ. Yes.

Mr. BLUM. Why did you do that?

Mr. KATZ. Our experience was such that I would say after we started to analyze the loans, we were finding about 50 percent of the loans we had with her were going into foreclosure.

Mr. BLUM. Did you suspend Frank Quintana? He was with Jim Carlos, Inc.

Mr. KATZ. I think that occurred subsequent to Empire.

Mr. BLUM. On the people who were suspended, where there were numbers of loans going into foreclosure, did you have any reason to believe that you should be contacting the U.S. attorney or perhaps FHA to indicate that there were possibilities of some irregularities in the transactions?

Mr. KATZ. No; we did not contact anyone, except that we were aware that El Sol was being investigated. We were told by the FHA that El Sol—that is Carrero Realty—after we told her we wouldn't handle any more of her business, I know she went to Springfield Equities.

I know from Springfield Equities she went to Union Mortgages, and continued on down the line, so it didn't make much sense for us to notify anybody because, if we did, they were apparently taking it on the individual cases that would be submitted by her, and it would be the same as with anyone else.

Mr. BLUM. So FHA had indicated to you it was looking at her and FHA had not suspended her, but you suspended her because——

Mr. KATZ. We didn't take any more applications.

Mr. BLUM. You simply stopped taking applications and, at that point, you assumed you didn't have to tell anyone because FHA knew?

Mr. KATZ. FHA was aware of it.

Mr. BLUM. But FHA apparently continued to take applications from her during that period.

Mr. KATZ. FHA takes the applications from the mortgage banker, which are her applications. They don't take it directly from her.

Mr. BLUM. They are identified as hers; are they not?

Mr. KATZ. I don't know if she changed her name or used different corporations.

Mr. BLUM. So FHA might not, in fact, know?

Mr. KATZ. There is a possibility.

Mr. BLUM. Because of the way FHA keeps its records.

Mr. KATZ. That is right.

Mr. BLUM. I would like to ask just a few questions about the transaction involving the sale of United mortgages.

In your statement you indicated the mortgages you sold Inter-Island were less than average quality.

Did the president of Inter-Island know he was buying mortgages of less than average quality?

Mr. KATZ. I would say he knew they were less than average quality.

I don't know necessarily that he knew he was going to have the number of defaults he had, nor did I know he was going to have the number of defaults. But the answer was that we had changed our course.

We were becoming more selective in the loans we were taking and these were the 8.5 percent that were on hand. We culled out of those 8.5 percent the loans we needed for our own Ginnie Mae issues.

Mr. BLUM. Those would have been the best?

Mr. KATZ. Not necessarily the best, but they were certainly the better quality ones.

We were selling to other institutions the better loans and these were the ones that remained at the end and these were the ones that were being sold, and I had indicated to Sirote that they were not the best quality loans and that is why I was selling below market price.

Mr. BLUM. Did you have conversations with him about this subject, specifically?

Mr. KATZ. Yes.

Mr. BLUM. I have here a letter dated January 28, 1971, which Mr. Rote wrote to Mr. Sirote which specifically calls his attention to a paragraph which was in the commitment letter.

Why would that have been done? Why would the step be taken of writing the letter to say, "Look, you are going to buy this without any right of selection; you take what we give you?"

Mr. KATZ. We wanted to make sure that this was the understanding and that there would be no question that whatever we offered to them were to be accepted.

Mr. BLUM. That they would take?

Mr. KATZ. Yes.

Mr. BLUM. And was there perhaps a fear that when he saw what the loans looked like, he might say "Wait a minute. I was ready to take anything, but not this?"

Mr. KATZ. There was a concern that he might have eliminated a certain number of them.

Mr. BLUM. But this made it clear that he couldn't?

Mr. KATZ. That is right.

Mr. BLUM. And he understood he couldn't?

Mr. KATZ. That is right.

Mr. BLUM. Just how different was the price that he paid, the going market price for FHA paper at that time?

Mr. KATZ. I would say the first transaction was at least one point and possibly a point and a half under the going price.

I would say the last transaction was where he bought at 106. The going price at that time varied anywhere from 106.5 to 107.

Mr. BLUM. So there were a variety of margins, but usually these transactions occurred at below what other buyers were paying for mortgages of somewhat higher quality?

Mr. KATZ. Right.

Mr. BLUM. How much below the price for mortgages purchased with right of selection by, say, a guy who wanted the very best paper?

Mr. KATZ. Well, of course, as you reach the very high point, they couldn't go much higher than that, but I would say if our loans were really prime at the time we sold them at 103 and released the servicing, we could have sold to others at 105 with a release of service.

Senator HART. The hour is 12 noon. I am one of the Members of Congress who endorsed the Vietnam moratorium today and, having urged others to suspend for 1 hour all activity, all normal business, I call a recess for 1 hour, and we will resume at 1 o'clock.

I do not know whether this does any good, but maybe some good will come of it. While we have been sitting here all morning, a number of people have been killed and God knows how many resources that we have dissipated. We will come back 1 hour from now to resume the hearing.

(Whereupon, at 12 noon, the hearing was recessed, to reconvene at 1 p.m., this same day.)

AFTERNOON SESSION

(1 p.m.)

Senator HART. The committee will be in order.

As I said at the recess at noon, I don't know whether there was much response to the call for a moratorium from business as usual. But, in some areas of the country, I do know that citizens assembled at the Federal building seeking to remind all of us that—while we go about our business here—we are in the process of applying strength so massive in a remote corner of the world for what purpose?

Mr. Blum?

Mr. BLUM. Mr. Katz, you handled the relationships between United and the various banks who lent money on a warehousing line of credit. Is that correct?

Mr. KATZ. That is right.

Mr. BLUM. What does a commercial bank look for in the mortgage company before it grants a warehousing line of credit? What qualifications do you have to have? What kind of credit standards do they apply?

Mr. KATZ. I think they would look for the past experience in the company, the integrity of the management, and the ability of the management, plus the fact that they do have a very good piece of security in the mortgage itself, which they either lend on the basis of a takeout commitment, which has a specified price, or somewhat under that where there is no takeout.

Mr. BLUM. This is a pretty good business, would you say, for a commercial bank? In effect, they have something over the prime rate for a fully secured loan; is that correct?

Mr. KATZ. That is correct.

On the other hand, they—the bank's position is that there is a lot more work involved in a warehousing line than in a normal bank loan.

Mr. BLUM. Why is there so much—

Mr. KATZ. Because the papers are forwarded to them. They have to examine the papers. Some banks actually do the shipping—ship all the instruments sent to them, and other banks ship on the basis of a trust receipt, return the papers to you and then you do the shipping. But there is more work that is involved, I suppose.

Mr. BLUM. A certain amount of paperwork is involved in this sort of thing.

Is it true that the typical mortgage company operates principally with borrowed money on warehousing lines of credit from commercial banks?

Mr. KATZ. Yes.

Mr. BLUM. Usually, mortgage companies are somewhat capital thin.

Mr. KATZ. They may not be capital thin with the warehouse lines, but without the warehouse lines their operations would be seriously limited.

Mr. BLUM. Are commercial banks interested in the nature of the mortgage company's lending criteria?

Mr. KATZ. I would say no.

Mr. BLUM. After the indictment of Eastern Service Corp., was there any conversation between you and the people at the banks? Did they indicate they were upset over the indictment or that they might withdraw warehousing lines of credit?

Mr. KATZ. They were very upset about it. Nobody threatened to withdraw any lines of credit. They were quite upset about it.

I assured them that our business had changed under Empire considerably, and the types of loans we are now taking would not be subject to this.

Mr. BLUM. What was their principal fear?

Mr. KATZ. The principal fear was that some of these loans, that they might be illegal loans from the point of view that the value was inflated through bribery, as the indictment of Eastern had indicated.

Mr. BLUM. In other words, if the loans had been fraudulent, they may not be protected by the Government guarantee?

Mr. KATZ. I think it went further than that. I do not think they wanted to be involved in such a thing.

They may have been concerned, also, that they might have loans on hand which they might not be able to collect on.

Mr. BLUM. I see.

When a broker comes into United, which title company gets the business that that broker brings in the door?

Mr. KATZ. We do not designate any title company. It is usually ordered by the attorney for the seller or, possibly, the attorney for the buyer. But we do not designate any.

Mr. BLUM. Are the rates the same among all the title insurance companies?

Mr. KATZ. Yes. Under the New York State title insurance laws all rates have to be identical.

Mr. BLUM. Was title insurance required for closing of loans involving the short and the interim financing?

Mr. KATZ. Yes.

Mr. BLUM. Who would make the determination as to which title company would have that business?

Mr. KATZ. That would be by the seller, by the speculator.

Mr. BLUM. By the speculator. Is there a pattern in New York of any gratuities of money or anything, any payment of any nature going to the title company or the speculator to attract new business?

Mr. KATZ. Do you mean to the closer or to the company itself?

Mr. BLUM. To either.

Mr. KATZ. I do not think—there were payments—there were gratuities given to the closer, but I do not think there were any gratuities or any benefits that the title company derived other than the fees from their title policy.

Mr. BLUM. How do they compete with each other?

Mr. KATZ. They compete with each other primarily by service. There are title companies that take a much longer time to complete the work than others, and many of our policies are ordered through abstract companies, who, in turn, use title companies.

Now, the abstract companies' service is very rapid, not necessarily as good as—not necessarily as thorough as the title companies. But the title company ultimately does the insuring, so there is no risk as far as the mortgage company is concerned.

Mr. BLUM. Speed, I take it, is of the essence here, because the speculator is very anxious to turn that house over. He is very anxious to find a buyer. So he wants speed.

Mr. KATZ. He may have an interim loan where he is paying a considerable amount of money monthly, or he may have his own money tied up, which means he cannot buy another house. So a delay of 2 weeks is quite important to him.

Mr. BLUM. Might a title company be tempted to take short cuts in its kind of research—its title search—to speed up the process, and the speculator would be pleased with it?

Mr. KATZ. I doubt that.

Mr. BLUM. Let me try this another way. Who bears the risk of loss in an FHA-insured situation where there is a possibility of something like an undisclosed defect that goes to the title? Is that the title company?

Mr. KATZ. That would be the title company's responsibility.

Mr. BLUM. To what extent does the bank that buys the mortgage actually turn to the title companies as opposed to FHA?

Mr. KATZ. FHA requires a new title policy after the foreclosure action. If there is a defect in title, the title company will not issue a new policy. Therefore, the FHA would not disburse its funds under the claim.

Therefore, the title company is the one who will be directly responsible, the title company which issued their policy.

Mr. BLUM. I must confess I didn't quite follow that.

A title company, after the foreclosure, would refuse to issue a new policy. Is that it?

Mr. KATZ. Yes. In other words, the title company—when we deliver a title to a property to the FHA, it is accompanied by a title policy.

Now, if we complete the foreclosure and the new title company says, "We cannot issue a policy to you, because we found that 4 years before you placed the mortgage, there was a mortgage on there which has never been satisfied, and it appears to be of record," then we cannot deliver this loan to FHA and FHA would not pay us.

Mr. BLUM. Does the same title company that handles the search originally get asked to do the title search the second time on a foreclosure?

Mr. KATZ. Sometimes they do.

Mr. BLUM. Wouldn't that title company then be quite tempted to grant the second policy of the conveyance to HUD and forget about it?

Mr. KATZ. I would say, normally, their title company would issue a new policy and based—and overlook their original error.

Mr. BLUM. Overlook the original error and the Federal Government would pay off and that would be the end of it?

Mr. KATZ. Yes. But when the Federal Government, in turn, sold to someone else, then, at that time they do not get a title policy, because FHA, on the sale, does not require—does not get a title policy for the mortgagee.

But the subsequent purchaser, if he were to sell at a later date, would then go back to FHA because the title was not good, and FHA, in turn, would go back to the title company.

So the title company, in the last instance, is the one responsible then.

Mr. BLUM. That does not really happen very frequently, does it?

Mr. KATZ. There are very few mistakes that are made in the first place. In all the experience we had, I do not think we made more than possibly two or three claims against the title company, although billions of dollars of originations—

Mr. BLUM. Given the fact that the title company may be issuing three policies, in relatively quick succession—the first with the speculator, the second one when the homebuyer buys it, and perhaps a third one when the property is foreclosed—they must view this as pretty good business. They do not have to do much research the second and third time after.

Mr. KATZ. It is a short-term search the second and third term. There is a discount. There is a discount on the second title.

Mr. BLUM. How significant a discount?

Mr. KATZ. It is regulated by the Insurance Department of the State of New York. I don't remember exactly.

Mr. BLUM. In a ball park number, does it not run something like \$350 for a \$20,000 house.

Mr. KATZ. No; it is not that high at all. I would say for a \$20,000 house, it is close to \$185. I may be wrong a little, but it is not \$300.

Mr. BLUM. Does United have a contract with a retail credit company or credit bureau for furnishing of credit information on prospective borrowers?

Mr. KATZ. No; we have no contract.

Mr. BLUM. How does that work? Do you order credit reports?

Mr. KATZ. We order credit reports, but we have no contract.

Mr. BLUM. You pay on a per-report basis?

Mr. KATZ. Per report.

Mr. BLUM. Which credit companies do you do business with?

Mr. KATZ. Primarily with Roy Clark on some retail credits bureau and we get the New York Credit Bureau blue sheets, which is the pending actions against the owners.

Mr. BLUM. What is the charge to you for each one of Roy Clark's credit reports?

Mr. KATZ. It is \$8 or \$9.

Mr. BLUM. Per report?

Mr. KATZ. Per report.

Mr. BLUM. How does that report get originated? Do you simply call the Roy Clark agency and say, "We have a man here, Joe Smith, who wants to buy a house. Here is the information."

Mr. KATZ. Yes, and they verify it. But I must say the credit report, as far as I am concerned, is practically valueless, because it is mainly a repetition of what you tell them.

Mr. BLUM. In other words, the way it works is you call in and you say that Joe Smithfield wants to buy a house, he works so and so, he earns such and such; and then, at some point later on, you get back a typed sheet from Roy Clark that says the same thing. Is that roughly the way it goes?

Mr. KATZ. It will give the age of the man, where he works. The investigation shows that he earns—that he has been employed for 3 years by such and such a company and earns so much money. His assets are \$5,000 furniture and fixtures, \$2,000 in the bank, 1969 Ford, other assets they are unable to determine. His wife is a housewife, or his wife works so and so.

It is usually a repetition of the information that appears in the FHA form 2900.

Mr. BLUM. In other words, they are giving back to you what you have given them over the phone?

Mr. KATZ. Practically. The only thing that comes back which is of great value, is what we call the blue sheets, which shows the pending actions.

Mr. BLUM. That will tell you whether or not there is a judgment?

Mr. KATZ. Whether there is a judgment, whether he is a slow payer. They give all department store credit references.

Mr. BLUM. In the event you find something on the blue sheet, how does that get clear? Does an affidavit clear that credit record?

For example, if Joe Smith files an affidavit that says, "I am not the one listed in such and such a blue sheet," will FHA accept that?

Mr. KATZ. Yes, of course, if the blue sheet shows that he lives—that is the same name living at this particular property, then they will not accept such an affidavit, because it is obviously a falsification.

If there were a judgment 3 years ago, and he may have moved three times in those 3 years, we don't have the previous addresses, and he says he is not the Joe Smith, then the affidavit is accepted by the FHA. The FHA gets the blue sheet. It is on the basis of that—that they pass the credit.

Sometimes they will pass credit where there is a judgment, providing the man satisfies the judgment before the closing.

Mr. BLUM. I want to return, for a minute, to the transaction involving mortgages that United Sold to Inter-Island.

After those mortgages, that Mr. Sirote got a chance to look at them, did he protest the quality of those mortgages to you?

Mr. KATZ. Not on the 8½-percent loans, no.

Mr. BLUM. What about the other loans?

Mr. KATZ. The ones that were delivered prior to June 15, which was a cutoff date for them, there was no protest.

At a subsequent date—and I do not even know whether the later ones went into a pool or what happened—he complained about the mortgages. He said he wanted better quality loans, and, as a matter of fact, there were some which we exchanged for him.

Mr. BLUM. Did he ever write to you about legal action with respect to the loans?

Mr. KATZ. He wrote to us threatening legal action concerning the clearing up of some violations. And our agreement was that the violations would be cleaned up and he had the right to go in and clean them up himself, at our expense. We, of course, have some reserve funds for that purpose.

Mr. BLUM. Would you mind supplying copies of those letters, or that letter, for the record?

Mr. KATZ. I do not have it here.

Mr. BLUM. I understand that.

Mr. KATZ. No; I have no objection.

Mr. BLUM. Were you ever contacted by officials of Jacksonville after they took over the servicing portfolio about repairs, required by the initial commitment, which the homeowner alleged was not done?

Mr. KATZ. I do not recall any such situation. I think that one of the confusions that took place was that when work was supposed to be done, a letter was prepared at the time of closing and put in the file. These letters were not sent out.

Jacksonville, I know, misinterpreted some of these letters—not Jacksonville, Springfield Equities—and assumed that those letters had been sent out.

They were merely in the files so that when the work was done, it would then be sent out.

But that did not—the mere fact that there was a letter in the file saying the work was done, did not mean the work——

Mr. BLUM. Did not mean the work was done?

Mr. KATZ. It did not mean the work was done. It was merely in the file to be sent out when it was certified by the inspector that the work was done. That letter did not go out unless the inspections were made.

Mr. BLUM. Is it possible escrows were released in error and there was repair work that was required to be done, that was never done?

Mr. KATZ. There have been some instances where escrows were set up for two purposes: one, for certain work required by FHA—or three purposes—sometimes, certain work that we require and sometimes for elimination of violations.

And there have been errors made where the man would bring you—where a 2300 was cleared up, I think it is part 14; I am not positive about it—and all of the moneys were released, although part of the money should have been held for the violation, or vice versa.

Mr. BLUM. Is there any remedy in a situation like that, where the homeowner says the repairs were not done and perhaps Springfield has made a mistake in assumption about what that letter said had been done?

Mr. KATZ. There have been very few instances that I know where the homeowner claims the work is not done and money is released—released or where we have certified it. Very, very few.

Mr. O'LEARY. Mr. Katz, I just have a couple of questions. I feel I may have missed some of your colloquy with Mr. Blum. If I am plowing over ground that he went through, please bear with me.

You testified, in response to some of Mr. Blum's questions, about how the packages of mortgages are assembled for the secondary market, and that based upon experience, you got to know what various institutions wanted in the way of mortgages.

Is that correct?

Mr. KATZ. Yes.

Mr. O'LEARY. I am interested in ascertaining from you what indicators you and the others in the industry look for, in determining the quality of the mortgages.

I think there was some discussion about the neighborhood where the mortgage was originated, which includes, I assume, racial composition and income level. Is that correct?

Mr. KATZ. That is correct.

Mr. O'LEARY. I take it, in addition to the buyer's income, some indicators also depend upon whether the wife's income is contributing to or is reflected in the application and being part of what would be relied upon to pay off the monthly mortgage payments.

Mr. KATZ. Yes.

Also, as far as the buyer's income is concerned, the type of job that he has. Someone who works for 6 months for a garage, even though he may earn \$1,400 a month, would not be considered as good a risk as someone who works for IBM for 4 years with—for \$1,200.

Mr. O'LEARY. In addition to those indicators, what others do you rely upon?

Mr. KATZ. The cash that he has been able to accumulate prior to the purchase of the house, the general area of the property, and the relationship of the mortgage percentagewise to the purchase price of the property. The higher the downpayment, the less likely you are to have it defaulted.

Mr. O'LEARY. I assume when the mortgage company assembles packages which it is going to sell to other—say, upstate savings banks—or Fannie Mae, or put together for a Ginnie Mae pool, it tries to spread its poor risks around. Am I right or wrong?

Mr. KATZ. It depends. There are some banks where you cannot spread any poor risks. Their requirements are so rigid that you will create their ill will if you start sending loans of that sort to them.

Mr. O'LEARY. I understand that. But pushing those to one side as institutions you know you can't sell bad risks to, am I correct in that you try to spread bad risks around the other institutions to whom you sell on the secondary market, be it Fannie Mae or somebody else?

Mr. KATZ. Yes; that is true.

Mr. O'LEARY. When you assemble these packages, in addition to those indicators that you listed, are there any others that you look to; for an example, the broker from whence the deal came?

Mr. KATZ. Well, at the present moment, we only accept from those brokers who we have had good previous experience with, so that is not a great factor any more.

Mr. O'LEARY. But in the task you become familiar with—

Mr. KATZ. Some brokers have an enviable record of never having defaulted, or at least none that have come to our attention, and other brokers we know loans go into default and loans go into foreclosure. So there would be, naturally, a tendency to regard a loan which is of equal quality on the face of it, to take the one where we had had good experience with the broker and treat that as the better loan.

Mr. O'LEARY. I assume you take that into consideration when you put the package together?

Mr. KATZ. Yes.

Mr. O'LEARY. You also testified, with reference to interim financing or loans to speculators, that your policy, although not a rigid

one, was that you would grant one loan to a broker dealer for every signer of mortgage loans that he would bring to United.

Is that unique with your company or is that customary in the trade?

Mr. KATZ. I don't know.

Mr. O'LEARY. Do you know whether your competitors had a similar policy in the New York area?

Mr. KATZ. I do not know.

Mr. O'LEARY. I assume that with respect to the short-money loan to the speculator, that it is made under the condition that when the property was ultimately sold, the mortgage on that property would be handled by either United or Delta?

Mr. KATZ. No; that was not a requirement. It was not a requirement and there have been loans that have been taken elsewhere. But it was understood that we were to get the loan or we were not going to make other loans referred by them to Delta.

But there was no written requirement that they had to give us the loan, and we have had loans that have been taken away from us after we placed the interim loans.

Mr. O'LEARY. You did testify, however, that you reluctantly got into the business of lending short money in order to meet competition. Is that right?

Mr. KATZ. That is right.

Mr. O'LEARY. You certainly didn't make these loans with the intent that the deal would go some place else?

Mr. KATZ. Oh, definitely not.

Mr. O'LEARY. It is fair to say, is it not, that the short-money loans were made for the purpose of securing mortgage business for your company?

Mr. KATZ. Oh, yes. But there was no written agreement that they had to give us the loan.

Mr. O'LEARY. I see.

Mr. BLUM. Mr. Katz, in view of the detail that you had to know about the loans in order to assemble the packages for the bank, did you not have to keep pretty good records about brokers and areas? I imagine you get to know that portfolio of yours very well. You know just what you are originating and what you have on hand. Is that accurate?

Mr. KATZ. We have to know what we are originating and what we have on hand; yes.

Mr. BLUM. What I am getting at is this. You have to tailor a package for each of the secondary market buyers. You have to have pretty detailed knowledge of what is in the package.

Mr. KATZ. Yes.

Mr. BLUM. So you would have pretty good records. You would have to keep pretty good records about the activities of particular brokers. You want to know their past history, their track record, as well as neighborhoods and areas. Is that correct?

Mr. KATZ. I would say the followup is primarily where we saw a large number of foreclosures coming from an individual broker.

Mr. BLUM. Is there any sort of formal underwriting guide that United had or a handbook, other than the HUD handbook, for which loans to take and which not to take, under FHA criteria?

Mr. KATZ. As I stated before, until recently—and when I say recently, within the last year—anything accepted—anything approved by either FHA or VA was acceptable by us.

Mr. BLUM. Were there any formal guides for assembling those packages that we talked about, that you shipped out to the upstate bank, supplied by them? Would they write to you and say—"Gee we only want them if they are in X territory, or if the wife is working," and so forth?

Mr. KATZ. I don't think we got any formal letters of that sort. There may have been a telephone conversation in which we asked what areas do you want them in or what is your ratio of income to expense, but they never—

Mr. BLUM. That would be by telephone when you make the deal?

Mr. KATZ. Right.

Mr. BLUM. Was there any other employee of United who had the responsibility for selling these mortgages on the secondary market?

Mr. KATZ. Yes.

Mr. BLUM. Who was that?

Mr. KATZ. Presently, it's Gloria Hutter.

Mr. BLUM. Who was it before?

Mr. KATZ. Riva Cohen.

Mr. BLUM. Did she deal directly with the bank or did she take those to brokers, intermediary brokers?

Mr. KATZ. Customarily, we dealt directly with the banks. There have been occasions where we dealt with brokers.

Mr. BLUM. Why would you go through a broker rather than through a bank?

Mr. KATZ. The broker might offer us a deal which is as good or better than we can get ourselves. The market, at that particular time, was tight.

Mr. BLUM. They might know about some bank or some institution that wanted mortgages?

Mr. KATZ. That's right. We couldn't cover the whole field the way the number of brokers can. We had our own limited clientele which we expanded to new banks, but I would say that we probably don't touch 1 percent of the purchasing institutions in the United States.

Mr. BLUM. Are there any financial institutions that participate in this secondary market who have reputations for looking for paper which is likely to be foreclosed?

Mr. KATZ. I know of none.

Mr. BLUM. Are there any paper buyers looking for the highest possible yield with no regard for quality whatsoever?

Mr. KATZ. This was true in the past, not so true now, because of the problems with foreclosures in the State of New York, abandonments, where we have to advertise for the owners.

Mr. BLUM. In other words, where their identities are disclosed?

Mr. KATZ. Yes; in other words, you should be able to complete a foreclosure in New York in about 6 months. However, if the occupants have disappeared and can't be located, there are a number of procedures required by the title company before you are allowed to advertise.

Then, after you advertise, it takes quite a time and these foreclosures can take you up to a year and a half, and they run about

three times the cost of what the others do, in addition to which, it's a requirement of FHA that the property be unoccupied. It means that there could be a delay of almost a year in being able to turn over the property to the FHA because the tendency of the courts is to grant stays to the present tenants, and they'll give them 6 months.

If they haven't found a place to live, they'll give them another 6 months, or 3 months. Then, there are other costs that are involved in this. So the cost of foreclosure now, on some of the ghetto-type properties is so high that if you have foreclosure, there will be a loss.

This did not occur 5 or 6 years ago.

Mr. BLUM. At that time, there were institutions that would go into these areas looking for highest possible yields.

Mr. KATZ. Right.

Mr. BLUM. What sort of institutions were they, savings banks?

Mr. KATZ. Savings and loans.

Mr. BLUM. Mostly savings and loans?

Mr. KATZ. Mostly savings and loans.

Mr. BLUM. Do any particular savings and loans come to mind?

Mr. KATZ. No, I really don't know.

Mr. BLUM. Inter-Island is still a competitor of United?

Mr. KATZ. Yes.

Mr. BLUM. You are competing for business from the same brokers?

Mr. KATZ. Right.

Mr. BLUM. At the same time, you deal with each other as you sold mortgages to Inter-Island?

Mr. KATZ. It was only on one occasion, continuous occasion. That was the one that you referenced?

Mr. BLUM. It also seems clear, in looking at the composition of the pools we looked at this morning, Inter-Island was buying from most of the mortgage companies which compete in the New York market with the exception of Eastern.

I believe you heard that testimony; did you?

Mr. KATZ. Yes.

Mr. BLUM. Would that sound about right?

Mr. KATZ. There were other companies that were not included in that list.

Mr. BLUM. But a large number?

Mr. KATZ. A large number were.

Mr. BLUM. Competitors were selling to Inter-Island?

Mr. KATZ. Yes; we have never sold to any of our competitors except—I shouldn't say "never." There may have been an isolated case, but with the exception of these series of deals we had with Inter-Island, we have not sold to others.

Mr. BLUM. I have no further questions.

Mr. CHUMBRIS. Thank you, Mr. Chairman.

I think you have been questioned now for about an hour by Mr. Blum and Mr. O'Leary. It really doesn't leave too many questions left to ask of you.

I would like to ask you just a few questions on a different line altogether.

On Monday, the first day of the hearings, Mr. Franklin Thomas, the president of the Bedford-Stuyvesant Restoration Corp., testified.

He stated as follows:

The Restoration's mortgage pool is actually only one aspect of the comprehensive housing program whose eventual goal is to help improve the quality and increase the number of housing units in Bedford-Stuyvesant.

Are you a competitor of this corporation as far as mortgages in that area?

Mr. KATZ. We are both a competitor and ally of the company because we do compete in the area. On the other hand, we close a large number of loans which Bedford-Stuyvesant processes.

We represented three companies that bought the Bed-Sty loan. That's Equitable Life, Teachers, and Bank of New York. We did the closing and shipping for these banks. We might compete with them, but we also benefited through the Bed-Sty Restoration program.

Mr. CHUMBRIS. I'm not being critical in my question.

Mr. KATZ. Yes; I understand.

Mr. CHUMBRIS. He also testified the corporation had a pool of about \$65 million furnished by 80-some banks, and nine insurance companies, I believe, to be exact. The figure is, the first year of operation, they had 56 loans closed, a total of \$771,000.

In 1969, they had 218 loans closed totaling approximately \$3.6 million. In 1970, they had 244 loans closed totaling \$4.6 million. And in 1971, 159 loans closed totaling about \$4 million.

He further noted that 1971 was a little lower than the previous year because of a softness in the economy during that period of time. He pointed out that they find difficulty in reaching as many people as they would like to for those loans.

In doing so, he pointed out that one of the reasons was the fact that his competitors, or the corporation's competitors, could get FHA approval faster than his corporation could, and further, some practices that were going on in the area in which they did not participate in or could compete with.

Do you have any comments to make on that?

Mr. KATZ. Well, the Bed-Sty operation was one which the service given to the operators and to the brokers was very slow. They would get an application—incidentally, this is hearsay. I don't really know—they would get an application and they would take quite a time before they reached—before they sent out the verification of deposits and the verifications of employment. There was considerable delay before they assembled all of these, and there was considerable delay before it went down to FHA.

Then, when it went down to FHA, it sat. Now, one of the services that the mortgage banker gives is that he is in constant touch with the FHA to see that the case moves through in normal course, so that the Bed-Sty cases—probably took three to four times longer with Bed-Sty's than they did with a company like ours or others we were competing with.

And the broker didn't want to lose his sale, because he could that way. It was more important to go to a bank, to go to a mortgage banker and pay them a discount rather than get a par loan from Bed-Sty because you would lose the sale which was more important to him than the discount that was involved, in addition to which their closings were very slow.

And that's why we started to close for Equitable, and we started to close for Teachers and Bank of New York. Now, we have closed, I would say, of that total, \$4 million, which is a high proportion—somewhere between \$3½ and \$4 million—which, based on the figures that you have given, is really a very high proportion of the amount of business that they have done, and we closed for them.

Mr. CHUMBRIS. His indication was not only loans were not closing fast when they were the ones who handled it, but he indicated—I believe I state accurately—that emoluments that went to the brokers and mortgagees were greater by going that route than through his corporation.

Do you have any comment on that?

Mr. KATZ. I think the answer, as far as I know, is the brokers did not want to deal through Bed-Sty, in most instances, because of the delays, which meant the possible loss of sales, in spite of the fact there was no difficulty selling the cases because they were already committed, and they were all committed for at cost.

Of course, the area was limited. It was limited to Bed-Sty whereas Brooklyn covers many more areas than Bed-Sty.

Mr. CHUMBRIS. Well, I guess I could pursue this question a little further, but you are just expressing your observation as you see it.

The thrust of the information that this subcommittee received, which led us into these hearings, would indicate it was a little bit more than just the ability to get a loan quickly through the channels you use than the one Bedford-Stuyvesant used.

I'll leave it with that.

Mr. Chairman, I know you have to go to the floor because of a quorum at this time.

Mr. KATZ. May I make one more statement?

The Post—the New York Post among numerous misquotes in their articles, and on two occasions has stated that we sold \$9,300,000 of mortgages that were in arrears. I don't know whether any members of the committee have read it, but this is absolutely false. I think they are completely confused. And I just wanted to clear that up because we have not sold that way nor would our warehousing banks ship loans that were in arrears.

So, if we wanted to we couldn't do it.

Senator HART. Thank you. Anything else?

Is my impression correct that if, on its face, the paper is regular or current, that the FHA simply relies on that face regularity?

Mr. KATZ. The FHA relies on the verifications—the verification of employment—I believe that they spotcheck one out of every 10 cases, or they are supposed to spotcheck one out of every 10 cases by calling the employer himself, and, of course, the credit bureaus.

Senator HART. Assuming they spotcheck one out of 10, then in nine out of 10 cases, if the paper is sound or regular on its face and if the outside credit bureau doesn't do any investigation in depth, nine out of 10 of those cases, the FHA simply approves the papers because it looks all right?

Mr. KATZ. Yes; if it falls within their qualifications, they would approve it.

Senator HART. It's sort of like the Internal Revenue Service. If you get audited, there may be a different answer, but if you are not

audited, given the volume of returns, it's a voluntary self-policing. Does that describe the FHA situation?

Mr. KATZ. Of course, it goes a little further than that because, under Internal Revenue, you make every statement, whereas, with this, the statements are verified by savings banks where there are savings accounts and they are verified by employers.

It is not quite—it is not a perfect analogy, but there is something to what you say.

Senator HART. Thank you very much.

Mr. KATZ. Thank you.

(Exhibit material follows. Testimony resumes on p. 330.)

EXHIBIT 2

Materials Furnished by Edwin Katz in Response to Subcommittee Subpoena Dated Mar. 6, 1972

UNITED INSTITUTIONAL SERVICING CORP.,
New York, N.Y., March 14, 1972.

Senator PHILIP A. HART,
Chairman Subcommittee on Antitrust and Monopoly, Committee on the Judiciary,
U.S. Senate, Washington, D.C.

DEAR SENATOR: As requested in your subpoena dated March 6, 1972, Attachment A, I enclose herewith schedules covering Items 1 and 2.

As to Item 3, the answer is none.

As to Item 4, I am including a schedule of Repo Realty Corp. I was not an officer of this corporation but, since it was a wholly-owned subsidiary of the company of which I am President, I am including this information for your record.

Yours very truly,

EDWIN KATZ,
Chairman of the Board.

REPO REALTY CORP.

Date	Property	Cost	Mortgage	Sold to—	Consideration
January 1, 1969...	472 Jerome Ave., Bronx.....	\$10,031.56	\$10,122.56	Held for Erie County..	Abandoned.
Do.....	656 Williams St., Brooklyn.....	16,467.70		Astor Realty.....	\$100.
Do.....	101 Garfield Pl., Brooklyn.....	14,081.87	Dec. 6, 1969	Challa Fund.....	13,000.
July 23, 1968.....	92 Albany Ave., Brooklyn ¹	10,084.22	Apr. 24, 1969	L. O. Scott.....	20,250.
July 17, 1967.....	77A Stanhope St., Brooklyn.....	2,966.90		Written off.....	

¹ \$7,695 paid to Arnold Realty for rehabilitation.

Shares held	Corporation and address	Officers	Purchase date	Price paid	Dividends paid	Shares paid	Sold at—	Date	Balance on hand
165	Capital Ventures, Inc., 45 West 43d St., New York, N.Y.	I. Edwin Katz, president; Bernard Roth, ex-vice president; Harold Fisher, treasurer.	Dec. 27, 1966	\$16,500.00	825	All	\$5,944.44	Jan. 7, 1969	---
							31,688.89	May 22, 1969	---
							12,838.47	May 22, 1969	---
							6,926.00	Feb. 1970	---
							6,267.76	Feb. 1971	---
							21,080.61	Mar. 18, 1971	---
							48.90	May 10, 1971	---
1,719	Arco Industries, Inc., 100 Park Ave., New York.	Joseph Robbins, president	Mar. 18, 1971	(¹)	---	---	---	---	\$1,719
100	Cosmetically Yours	---	Apr. 5, 1968	1,774.50	0	All	1,919.75	Aug. 15, 1968	---
20	Delta Capital Corp., 25 West 43d St., New York.	I. Edwin Katz, president; Bernard Roth, ex-vice president; Harold Fisher, treasurer.	Nov. 5, 1963	8,000.00	0	All	10,544.43	---	---
							936.60	Nov. 1970	---
							4,000.00	---	---
100	Pizza Hut, Inc.	---	May 7, 1969	2,887.50	---	All	1,058.75	Dec. 18, 1969	---
100	Magnetic Head Corp.	---	July 10, 1969	1,750.00	0	All	1,414.00	Apr. 13, 1970	---
200	Synchronex Corp.	---	Sept. 25, 1969	1,500.00	0	All	872.50	May 25, 1971	---
100	Advanced Patent Technology	---	Mar. 24, 1969	1,000.00	0	All	1,525.75	May 13, 1969	---
300	S.M.C. Investment Corp.	---	Oct. 24, 1968	5,250.00	180	All	2,683.99	Dec. 18, 1969	---
200	Monica Simone Cosmetics, Inc.	---	May 15, 1969	1,000.00	0	All	473.50	Dec. 15, 1970	---
500	Pullman Associates, Ltd.	---	May 13, 1968	2,812.50	0	All	1,938.75	Sept. 16, 1967	---
100	Alumina Ferrite Corp. of America	---	Oct. 31, 1969	600.00	0	All	2,497.25	June 2, 1971	---
100	Apollo Lasers	---	Dec. 2, 1970	400.00	0	All	373.75	June 2, 1971	---
200	Algorex Data Corp.	---	Apr. 10, 1970	1,239.00	0	All	1,118.50	July 20, 1971	100
100	Cerdyne Inc.	---	Mar. 26, 1970	1,075.13	0	100	377.88	May 25, 1971	---
200	H. Tech. Industries	---	Aug. 31, 1970	475.00	0	All	595.00	June 2, 1971	---
350	Inter-Island Migeo, 176-60 Union Turnpike, Flushing.	Stanley Sirdle, president	Feb. 9, 1971	1,795.50	0	All	3,759.37	Sept. 9, 1971	---
400	Komatsu Ltd.	---	May 25, 1971	7,062.88	---	---	---	---	200
100	Lisfax Corp.	---	Aug. 24, 1970	525.00	---	---	---	---	100
50	Petrofina S.A. Belgium	---	Mar. 18, 1970	4,516.81	---	---	---	---	50
100	I.D. Devices	---	Aug. 24, 1971	500.00	---	---	---	---	---
							535.00	Aug. 31, 1971	---

¹ Received as part payment on Capital Ventures.

PAYMENTS RECEIVED FROM DELTA CAPITAL CORP.

Delta No.	Date	Amount loaned	Date repaid	Interest	Real estate operator and address
146	Aug. 7, 1968	\$6,000.00	Mar. 3, 1969	\$609.00	Michelle Ent, 720 Fenimore St., Brooklyn.
			Feb. 3, 1969	405.00	
153	Aug. 22, 1968	10,000.00	Dec. 24, 1968	270.00	Prima, 32 Clifton Pl., Brooklyn.
160	Sep. 12, 1968	7,500.00	Oct. 30, 1968	112.50	Duma, 1106 Winthrop St., Brooklyn.
161	Sep. 13, 1968	2,375.00	Oct. 22, 1968	41.57	Warner, 1482 Carroll St., Brooklyn.
163	Sep. 17, 1968	1,375.00	Nov. 19, 1968	35.52	Golden Globe, 467 Jefferson Ave., Brooklyn
166	Sep. 24, 1968	1,237.50	Mar. 21, 1969	91.26	Michel, 680 Rutland Pl., Brooklyn.
			Jan. 31, 1969	351.00	
172	Oct. 3, 1968	6,000.00	Oct. 29, 1968	90.00	Prima, 531 Evergreen, Brooklyn.
176	Oct. 10, 1968	4,750.00	Jan. 14, 1969	360.00	Prima, 1413 Jefferson Ave., Brooklyn.
177	Oct. 11, 1968	5,850.00	Jan. 11, 1969	263.25	Freedom, 752 Glenmore, Brooklyn.
			Mar. 17, 1969	81.00	
184	Oct. 31, 1968	2,250.00	Feb. 6, 1969	68.63	Prima, 18 De Sales Pl., Brooklyn.
185	Nov. 4, 1968	2,500.00	July 11, 1969	221.25	Freedom, 663 Baltic, Brooklyn.
188	Nov. 14, 1968	2,650.00	Feb. 19, 1969	56.68	Freedom, 469 Barbey, Brooklyn.
189	Nov. 14, 1968	10,000.00	Mar. 24, 1969	235.00	Duma Realty, 300 E. 92d St., Brooklyn.
202	Dec. 10, 1968	6,000.00	Aug. 8, 1969	552.00	Rico, 251 Palmetto St., Brooklyn.
210	Dec. 24, 1968	15,300.00	Mar. 24, 1969	554.63	How Bar, 2788 Sexton Pl., Bronx.
211	Dec. 27, 1968	8,000.00	Mar. 21, 1969	213.73	Michelle, 254 E. 48th St., Brooklyn.
213	Jan. 6, 1969	2,500.00	Feb. 24, 1969	46.88	Home Owners, 260 Covert St., Brooklyn.
220	Jan. 16, 1969	7,500.00	June 9, 1969	521.25	Tosler Realty, 117-24 124th St., South Dr. Pl.
230	Feb. 11, 1969	7,000.00	June 16, 1969	420.00	Freedom, 307 S. 4th St., Brooklyn.
231	Feb. 11, 1969	11,000.00	Mar. 18, 1969	181.50	Freedom, 67 Crystal St., Brooklyn.
236	Feb. 21, 1969	1,400.00	Oct. 6, 1969	129.50	Home Owners, 398 Prospect Ave., Brooklyn.
238	Feb. 25, 1969	5,000.00	June 20, 1969	285.00	Prima, 953 Madison St., Brooklyn.
249	Mar. 26, 1969	13,300.00	Oct. 16, 1969	1,102.79	Michelle, 184 Lott St., Brooklyn.
			July 2, 1969	196.40	
250	Mar. 28, 1969	12,237.50	July 2, 1969	262.50	Barry Baines, Inc., 97 W. Centennial Ave., Roosevelt.
251	Mar. 31, 1969	2,000.00	May 13, 1969	43.00	Chala Fund, 710 President St., Brooklyn.
262	Apr. 24, 1969	7,000.00	June 4, 1969	140.00	Graclo Realty, 153 East 37th St., Brooklyn.
268	May 7, 1969	2,000.00	July 10, 1969	44.17	Mayhope Realty, 1120 Herkimer St., Brooklyn.
271	May 13, 1969	2,000.00	Aug. 14, 1969	90.00	Prima, 553A Monroe St., Brooklyn.
288	June 14, 1969	7,500.00	Aug. 10, 1970	1,306.45	Michelle, 2326 Tilden Ave., Brooklyn.
290	June 19, 1969	7,000.00	Aug. 4, 1969	131.25	Sanalot, 1344 Therriot Ave., Bronx.
293	June 23, 1969	5,000.00	Feb. 19, 1970	489.58	Bory, 599 Empire Blvd., Brooklyn.
301	July 15, 1969	12,500.00	Sept. 2, 1969	275.00	Challa Fund, 569 Madison St., Brooklyn.
302	July 15, 1969	4,500.00	July 30, 1969	56.25	Harbor View, 1184 Halsey, Brooklyn.
321	Aug. 4, 1969	2,300.00	Sept. 29, 1969	49.83	O'Drargo Realty, 506 East 46th, Brooklyn.
323	Aug. 7, 1969	6,500.00	Oct. 24, 1969	247.00	Prima, 403 Berry St., Brooklyn.
327	Aug. 19, 1969	4,000.00	June 25, 1970	612.00	Rico, 77 Wolcott St., Brooklyn.
329	Aug. 26, 1969	500.00	Open		Mintern, 1503 St. Marks, Brooklyn.
334	Aug. 26, 1969	4,500.00	Jan. 26, 1970	337.50	Freedom, 110 Ryerson St., Brooklyn.
340	Sept. 3, 1969	8,000.00	Feb. 5, 1970	503.33	Gainmore, 548 East 48th St., Brooklyn.
343	Sept. 4, 1969	4,500.00	Oct. 28, 1969	121.50	Dean A. Ass., 260A Tompicius Ave. Brooklyn.
384	Nov. 3, 1969	6,500.00	Dec. 12, 1969	105.62	Amity Enterprises, 413 57th St., Brooklyn.
363	Oct. 1, 1969	2,300.00	Nov. 30, 1971	1,204.58	Alretha, 705 Madison St., Brooklyn.
370	Oct. 8, 1969	1,400.00	Open		Warner, 46 Gates Ave., Brooklyn.
375	Oct. 7, 1969	13,300.00	Dec. 10, 1969	360.21	Michel, 168 Washington Ave., Brooklyn.
386	Nov. 11, 1969	3,500.00	Feb. 15, 1971	685.71	Mar Deb., 1851 Prospect Pl., Brooklyn.
387	Nov. 5, 1969	6,000.00	June 17, 1970	555.00	Mar. Deb., 167 Hart St., Brooklyn.
416	Dec. 16, 1969	6,500.00	Feb. 4, 1970	152.75	Grovehold, 1419 Hancock St., Brooklyn.
421	Dec. 23, 1969	13,300.00	Feb. 5, 1972	227.21	Michel, 75 Downing St., Brooklyn.
435	Jan. 27, 1970	4,500.00	Mar. 17, 1970	112.50	Rico Realty, 1446 Greene St., Brooklyn.
442	Feb. 5, 1970	8,000.00	Feb. 18, 1970	50.00	Rico Realty, 1376 Jefferson St., Brooklyn.
443	Feb. 5, 1970	6,500.00	Apr. 20, 1970	403.12	Michel, 200 McDonough St., Brooklyn.
450	Feb. 19, 1970	7,000.00	June 4, 1970	367.53	Prima, 407 South 5th St., Brooklyn.
451	Feb. 20, 1970	4,000.00	Mar. 16, 1970	53.00	Amity Ent., 351 44th St., Brooklyn.
454	Feb. 24, 1970	14,300.00	July 25, 1970	840.56	Somalot, 1215 Gilbert Pl., Brooklyn.
458	Feb. 26, 1970	1,000.00	June 5, 1970	48.00	Challa, 448 Central Ave., Brooklyn.
471	Mar. 18, 1970	2,000.00	Sept. 25, 1970	187.00	Challa, 54 Putnam Ave., Brooklyn.
475	Mar. 26, 1970	2,000.00	Apr. 23, 1970	30.00	Prima, 207 Manahan St., Brooklyn.
478	Mar. 27, 1970	3,500.00	June 26, 1970	128.33	Dynam, 454 Franklin, Brooklyn.
479	Apr. 1, 1970	1,000.00	Aug. 3, 1970	50.00	Jim Carlos, 318 Bond St., Brooklyn.
496	Apr. 23, 1970	6,500.00	May 11, 1970	81.25	Angelique, 656 Jefferson St., Brooklyn.
497	Apr. 23, 1970	2,000.00	Oct. 7, 1970	163.00	Roma Remodeling, 247-9 Melrose St., Brooklyn.
527	June 30, 1970	3,500.00	Jan. 4, 1971	268.33	Prima, 104 Linden St., Brooklyn.
530	July 2, 1970	4,000.00	July 30, 1970	176.00	Challa, 652 Hendricks St., Brooklyn.
532	July 9, 1970	6,000.00	July 9, 1970	437.50	Mr. Houses, 129 Lewis Ave., Brooklyn.
552	Aug. 18, 1970	8,000.00	Open		Octo Construction, 167-26 108th Dr., Jamaica.
574	Oct. 13, 1970	4,000.00	Nov. 10, 1970	6.60	Jaclyn Enterprises, 180 Hart St., Brooklyn
576	Oct. 15, 1970	2,000.00	Nov. 10, 1970	27.00	Prima, 1076 Hancock St., Brooklyn.
577	Oct. 15, 1970	6,000.00	Nov. 15, 1970	120.00	Salinas Enterprises, 309 Winfield Ave., Brooklyn.
580	Oct. 20, 1970	4,000.00	July 20, 1971	500.00	Covert Hold, 176-8 80 Penn Ave., Brooklyn.

PAYMENTS RECEIVED FROM DELTA CAPITAL CORP.—Continued

Delta No.	Date	Amount loaned	Date repaid	Interest	Real estate operator and address
591-----	Nov. 11, 1970	2,000	Apr. 28, 1971	139.17	Concord Hold, 556 East 96th St., Brooklyn.
598-----	Nov. 30, 1970	6,000	Feb. 4, 1971	155.00	West Brighton Village, 681 Monroe St., Brooklyn.
604-----	Dec. 11, 1970	2,300	Jan. 26, 1971	42.17	West Brighton Village, 193 Madison St., Brooklyn.
628-----	Feb. 19, 1971	6,000	Mar. 30, 1971	132.00	Prima Realty, 1343 De Kalb Ave., Brooklyn.
624-----	Feb. 2, 1971	2,300	June 8, 1971	118.83	Wilfred Qualls, 18 Miami Ct., Brooklyn.
637-----	Apr. 1, 1971	9,500	Apr. 28, 1971	118.75	Concord Hold, 402 East 49th St., Brooklyn.
672-----	Dec. 1, 1971	10,000	Feb. 18, 1972	325.00	Kaybet Realty, 137-43 Carson Ave., Spring, Ga.

STATEMENT OF STANLEY SIROTE, PRESIDENT, INTER-ISLAND MORTGAGE CORP.

Senator HART. Our concluding witness is Mr. Stanley Sirote. I believe Mr. Sirote is accompanied by counsel.

(Whereupon, the witness was duly sworn by the chairman.)

Senator HART. The record should reflect Mr. Sirote is appearing here today pursuant to subpoena.

I understand, Mr. Sirote, that you are represented by counsel and that counsel is present at the table with you.

Would you kindly state, for the record, his name?

Mr. SIROTE. Mr. Richard Braunstein.

Senator HART. Mr. Braunstein, do you represent Mr. Sirote?

Mr. BRAUNSTEIN. Yes; we do.

Senator HART. I'm sure, Mr. Sirote, that Mr. Braunstein has consulted with you with respect to your appearance and counsel, but because you are here today, pursuant to subpoena, the record should reflect the committee itself has advised you of your rights.

You have a right to refuse to answer any questions you feel may tend to incriminate you. Anything you do say may be used against you in any other proceeding.

You have a right to consult with Mr. Braunstein at any time before answering any question.

Should you decide to answer questions now, you still have a right to stop answering questions at any time.

The record, I think, should reflect also, that should you decide to refuse to answer or assert your rights, you are assured that this subcommittee will draw no adverse inference from that course of conduct, and I add, neither should anyone else.

Do you understand this?

Mr. SIROTE. Yes, sir.

Senator HART. Are you willing to waive your rights and answer questions at this time?

Mr. SIROTE. No.

Senator HART. Would you be in a position—perhaps counsel would like to explain that “no”.

I would like for the record at least to get your name and address.

Mr. BRAUNSTEIN. My name is Richard Braunstein, 1225 Connecticut Avenue NW., Washington, D.C.

Senator HART. Mr. Sirote, would you be willing to respond to those same questions, your name and address?

Mr. SIROTE. Yes; my name is Stanley Sirote. I reside at 610 Long-acre Avenue, Woodmere, N. Y.

Senator HART. Would you identify the third person accompanying you?

Mr. BRAUNSTEIN. The third person is Jim Treanor. He is also at our office.

Senator HART. When you negotiated the purchase of mortgages from United to complete Inter-Island's GNMA pool 642, were you aware that United was planning to sell you below average quality mortgages?

Mr. SIROTE. On the advice of counsel, I respectfully decline to respond to the question on the grounds that the answer may tend to incriminate me.

Senator HART. There is a tradition and a custom here. It may be like what the law is on releasing classified documents, a lot of assumptions, but in recent days, we have discovered whether there was any question that covers it at all.

But there is a tradition here in the Senate, when the witness invokes a fifth amendment privilege, the question should be repeated with the direction that he answer. Then, if he continues to assert the fifth amendment right, that it be stated a second time. So I shall address the question again.

(Exhibit material follows. Testimony resumes on p. 402.)

Materials Relating to the Testimony of Stanley Sirote

EXHIBIT 1

Documents Relating to Inter-Island "Short Money Lending"

INTER-ISLAND MORTGAGEE CORP.,
Flushing, N.Y., March 22, 1972.

SENATE ANTITRUST SUBCOMMITTEE,
Senate Annex, Washington, D.C.
(Attention: Jack A. Blum).

DEAR MR. BLUM: As per your telephone conversation with Mr. Stanley Sirote on March 21, 1972, I am enclosing copies of the Interim Loans you requested.

Please note one group is Satisfied, the other group is Active.

Should you require anything further please do not hesitate to contact me.

Sincerely,

KATHERINE KOURY,
Senior Vice President.

Enclosure.

CURRENT INTERIMS

<u>BROKER</u>	<u>PREMISES</u>	<u>AMOUNT OF LOAN</u>	<u>DATE MADE</u>
Ado Homes	131-25 Mathewsm Court Springfield Gdns, N.Y.	\$12,500	Jan. 4, 1972
Ado Homes	128-40 148 St. So. Ozone Pk., N.Y.	\$21,000	Nov. 22, 1971
Ado Homes	110-47 207 St. Queens Village, N.Y.	\$14,500	Dec. 22, 1970
Ada Homes	148-07 Linden Blvd. Jamaica, N.Y.	\$24,000	Dec. 20, 1971
Ada Homes	148-24 Linden Blvd. Jamaica, N.Y.	\$10,000	Aug. 12, 1971
Agasson Realty	168-08 Sayres Ave. Jamaica, N.Y.	\$12,700	Dec. 20, 1971
Better Nassau	109-52 142 St. So. Ozone Pk., N.Y.	\$15,000	Nov. 24, 1971
Better Nassau	132-05 Liberty Ave. Richmond Hill, N.Y.	\$13,500	July 21, 1971
Chala Funding	11 Cambria Pl. Brooklyn, N.Y.	\$11,500	Oct. 23, 1970
Damewood Realty	137 N.E. 106 St. Miami, Florida	\$27,750	Dec. 3, 1971
Damewood Realty	279 110 St. Miami, Florida	\$17,000	Dec. 30, 1971
Damewood Realty	235 N.E. 29 St. Miami, Florida	\$34,750	Dec. 8, 1971
Damewood Realty	2501 22 Ave. Miami, Florida	\$18,750	Dec. 3, 1971
Damewood	2970 N.W. 165 St. Opalooka, Florida	\$16,000	Nov. 5, 1971
Damewood	1420 NW. 26 St. Miami, Florida	\$ 7,936	Nov. 1, 1971
Damewood	419 N.E. 71 St. Miami, Florida	\$ 375	Nov. 1971
Damewood	#4-70	\$22,500	Oct. 8, 1971
Damewood	419 N.E. 71 St. Miami, Florida	\$27,000	Oct. 27, 1971

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CURRENT INTERIMS

<u>BROKER</u>	<u>PREMISES</u>	<u>AMOUNT OF LOAN</u>	<u>DATE MADE</u>
Eritz Prop.	539 Schenck Ave. Brooklyn, N.Y.	\$ 9,000.00	Oct. 23, 1969
First Met	1719 Undercliff Ave. Bronx, N.Y.	\$15,000.00	Dec. 1, 1971
Fridal Enter- Prise	1287 Hancock St. Brooklyn, N.Y.	\$13,500.00	Nov. 1, 1971
Fridal Enter- prise	226 Cornelia St. Brooklyn, N.Y.	\$ 8,000.00	Oct. 7, 1971
Go-Well Homes	118-61 154 St. Jamaica, N.Y.	\$ 7,500.00	Jan. 25, 1972
Gulf Title	3521 S.W. 3rd St.	\$26,540.80	Oct. 21, 1971
Gulf Title	1065 W. 32nd St.	\$26,871.33	Oct. 21, 1971
Ganer W. Crowder	282 Mareches Road St. James, N.Y.	\$19,900.00	Oct. 29, 1971
Gulf Title	Florida	\$17,000.00	Dec. 30, 1971
Home Transfer	88-10 213 St. Queens Village, N.Y.	\$13,500.00	Aug. 19, 1971
Home Transfer	104-38 134 St. Richmond Hill, N.Y.	\$18,500.00	Jan. 28, 1972
Jotoi Cont- ractors	113-27 203 St. Hollis, N.Y.	\$12,000.00	Dec. 17, 1971
Lectner & Goodman	235 Georgia Ave.	\$ 9,300.00	Dec. 22, 1970
Nansue Rental	310 Eastwood Ave. Centereach, L.I.	\$ 8,200.00	July 14, 1971
Mill-Reef Equ.	119-37 192nd St. St. Albans, N.Y.	\$19,000.00	Nov. 19, 1971
Mill Reef	100-11 205 St. Hollis, N.Y.	\$ 8,500.00	July 1, 1971
Mill Reef	131-36 232nd St.	\$25,000.00	Oct. 26, 1971
Mill Reef	115-20 229 St. Cambria Heights, N.Y.	\$ 3,000.00	Aug. 27, 1971
Mill Reef	274 Rutland Rd. Freeport, N.Y.	\$23,500.00	July 1, 1971

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<u>BROKER</u>	<u>PREMISES</u>	<u>AMOUNT OF LOAN</u>	<u>DATE MADE</u>
Mill-Reef Equ.	176-11 134 th Ave. Springfield Gdns, N.Y.	\$26,500.00	Oct. 29, 1971
Mill-Reef Equ.	10 Primrose Lane Roosevelt, N.Y.	\$29,000.00	Jan. 19, 1972
Mill-Reef Equ.	143-23 222 Street Laurelton, N.Y.	\$16,400.00	Jan. 25, 1972
P.F.V. Realty	281-17 119 Ave. St. Albans, N.Y.	\$16,000.00	Nov. 2, 1971
Pills Dir. Corp.	1285 N.W. 26 St. Miami, Florida	\$21,000.00	Nov. 3, 1971
Richardson	332 E. 222 St. Brooklyn, N.Y.	\$20,000.00	Nov. 25, 1970
Richardson	1454 Shakespeare Ave.	\$22,000.00	May 17, 1971
Richardson	716 E. 232 St. Bronx, N.Y.	\$30,000.00	May 6, 1971
Richardson	736 E. 220 St. Bronx, N.Y. 10467	\$20,500.00	April 21, 1971
Richmond Fund.	3246 Richmond Terrace Staten Island, N.Y.	\$ 7,500.00	Aug. 13, 1970
Richmond Fund.	47 Stanley Avenue Staten Island, N.Y.	\$17,000.00	Jan. 7, 1971
Richmond Fund.	43 Stanley Avenue Staten Island, N.Y.	\$17,000.00	Jan. 7, 1971
Richmond Fund.	47 Stanley Avenue Staten Island, N.Y.	\$17,000.00	Jan. 7, 1971
Richmond Fund.	49 Stanley Avenue Staten Island, N.Y.	\$17,000.00	Jan. 7, 1971
Richardson	4625 Wilder Avenue Bronx, N.Y.	\$29,350.00	June 3, 1971
Richardson	3629 Holland Ave. Bronx, N.Y.	\$10,000.00	May 2, 1971
Robert Eldridge	1922 Straight Path Dix Hills, N.Y.	\$14,000.00	Oct. 26, 1971
Middle Country	241 6 th Avenue St. James, N.Y.	\$16,750.00	Dec. 2, 1971
WHC Realty Corp.	1165 Dean St. Brooklyn, New York	\$19,000.00	Oct. 6, 1970

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<u>BROKER</u>	<u>PREMISES</u>	<u>AMOUNT OF LOAN</u>	<u>DATE MADE</u>
WHC Realty	1165 Dean St. Brooklyn, N.Y.	\$19,000.00	Oct. 6, 1970
Winsome Realty	Garder W. Crowder 90 Cedarhurst	\$ 9,000.00	Sept. 24, 1971
Will-Reef Equ.	175-38 137 th Ave. Springfield Gds., NY	\$22,500.00	Dec. 7, 1971
Noir Investors	99-04 200 St. Hollis, N.Y.	\$20,000.00	Dec. 22, 1971

SATISFIED INTERIMS

<u>BROKER</u>	<u>PREMISES</u>	<u>AMOUNT OF LOAN</u>	<u>DATE MADE</u>
Acardia	144-17 Smith Road Jamaica, N.Y.	\$ 8,000.00	Nov. 9, 1971
Ado Homes	110-53 Union Hall St. Jamaica, N.Y.	\$10,000.00	Oct. 7, 1970
Ado Homes	114-46 173rd St. St. Albans, N.Y.	\$22,000.00	Oct. 22, 1971
Ado Homes	67-44 199 St. Flushing, N.Y.	\$23,000.00	July 16, 1971
Aid-Lex Inc.	1 W. 80 Grandlands Ct., Florida	\$ 415.50	Dec. 31
Compare Real	10 Brightaide Ave. Central Islip, N.Y.	\$12,600.00	July 15, 1971
Corho Realty	768 Brighton Avenue Staten Island, N.Y.	\$21,000.00	June 29, 1971
Corho Realty	766 Brighton Avenue Staten Island, N.Y.	\$18,000.00	June 28, 1971
Domecar Inc.	137 NE. 106 Street	\$ 277.50	Dec. 31, 1971
Domecar Inc.	137 N.E. 106 Street	\$ 170.00	Dec. 1971
Fenex Investment	Allapattalo Heights Florida	\$ 187.50	Dec. 31, 1971
First Met	945 E. 214 St. Bronx, N.Y.	\$22,500.00	Nov. 24, 1971
Glare Homes	119-15 147 Street	\$17,000.00	Oct. 4, 1971
Glare Homes	130-69 227 Street Laurelton, N.Y.	\$17,500.00	May 3, 1971
Glare Homes	107-21 Union Hall St. Jamaica, N.Y.	\$ 8,500.00	Jan 27, 1971
Go-Well Homes	126-38 146 St. So. Ozone Pk, N.Y.	\$11,000.00	Nov. 18, 1971
Hammer House	119-29 145 St. Jamaica, N.Y.	\$15,000.00	June 2, 1971
Home Transfer	109-25 156 St. Jamaica, N.Y.	\$14,000.00	June 18, 1971

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<u>BROKER</u>	<u>PREMISES</u>	<u>AMOUNT OF LOAN</u>	<u>DATE MADE</u>
Langer Fund.	110 Prospect Place	\$16,000.00	May 10, 1971
Mill-Reef	185-02 Hollis, N.Y.	\$20,000.00	June 29, 1971
Mill-Reef	171-12 108 Avenue Jamaica, N.Y.	\$19,000.00	Sept. 1, 1971
Mill-Reef	115-66 218 Street Cambria Heights, N.Y.	\$27,000.00	April 21, 1971
O'Mara	Cypress Lane Shenrock	\$18,000.00	June 22, 1971
Pillo Dev.	West End Pk. Florida	\$ 420.00	Dec. 31, 1971
Protesca		\$ 36.00	Dec. 31, 1971
Rac Mill Realty	18 So. 1st Street	\$ 43.20	Sept. 30, 1971
Richardson	3668 Barnes Ave. Bronx, N.Y.	\$16,750.00	April 21, 1971
Welch Inv.	Federal Building Florida	\$ 273.75	Dec. 31, 1971
Welch Inv.	235 N.E. 29th St. Miami, Florida	\$ 3,500.00	Oct. 21, 1971
Winsome Real	35 Ormond St. Islip, Selden, N.Y.	\$10,000.00	July 28, 1971
Winsome Real	57 Clinton Ave. East Patchogue, N.Y.	\$ 9,500.00	July 7, 1971
Mill Reef	150-45 114 Road Jamaica, N.Y.	\$ 8,000.00	July 2, 1971
Beneficial	56 Brook St. Staten Island, N.Y.	\$ 4,000.00	Oct. 29, 1970
Beneficial	1 Chestnut St. Staten Island, N.Y.	\$ 4,000.00	Oct. 29, 1970
Century Properties	131 Williams Ave. Brooklyn, N.Y.	\$11,000.00	Apr. 24, 1970
Hattner	7 Prospect Avenue Staten Island, N.Y.	\$14,000.00	Mar. 30, 1970

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<u>BROKER</u>	<u>PREMISES</u>	<u>AMOUNT OF LOAN</u>	<u>DATE MADE</u>
Better Nassau	132-02 Liberty Ave. Richmond Hill, N.Y.	\$13,500.00	Nov.16, 1970
Better Nassau	146-12 Liberty Ave. Jamaica, N.Y.	\$12,000.00	Apr. 16, 1970
Brita Homes	34-11 107 Avenue	\$12,000.00	Aug. 5, 1969
J. Carlos, Inc.	375 12 th Street Brooklyn, New York	\$10,000.00	Oct. 22, 1969
Century Prop.	485 Hicks St. Brooklyn, N.Y.	\$11,500.00	May 9, 1969
Hema - El Sal	369 Atkins Ave. Brooklyn, N.Y.	\$12,500.00	Aug. 26, 1969
Hema Realty	575 Glenmore Ave. Brooklyn, N.Y.	\$ 8,500.00	Sept. 26, 1969

John E. Johnson

Billed	Paid	Paid thru
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John E Johnson

Billed	Paid	Paid through
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12/23/71

12/20/71 Agassiz Realty Corp.
168-08 Sayres Avenue
Jamaica, New York

Philip Golden

\$12,700.00 18% Expires 6/30/72
Interest \$190.50 per month \$6.35 per diem
Billed Paid Paid thru

SF 207 18800

2/28/72 Arcadia Realty Corp.
130-23 231 Street
Laurelton, New York

\$23,500.00 18% Expires 8/28/72
Interest \$352.50 per month \$11.75 per diem
Billed Paid Paid thru

10/23/70 Chala Funding Corp
11 Cambridge Place
Brooklyn

Charles Friedman

\$11,500.00 24% Expires 4/23/71

Interest \$230.00 per month \$7.666 per diem

Billed	Paid	Paid through
\$1840.00	6/3/71	6/22/71

		SF 187	12,000.
12/1/71	First Met Realty Corp. 1719 Undercliff Avenue Bronx, New York		Schiff

\$15,000.00 12% Expires 6/1/72

Interest \$150.00 per month \$5.00 per diem

Billed	Paid	Paid thru
	7/10/70 -	12/31/70
	7/7/70 -	7/31/71
	3/3/71 -	3/31/71

8/12/71 ADO HOMES, INC.
148-25 Linden Blvd.
Jamaica, N.Y.

SF 172

\$10,000.00 24% expires 2/12/72

Interest \$200.00 per month 6.666 per diem

Billed j Paid Paid Through

12/22/70 Ado Homes, Inc.
110-47 207 Street
Queens Village

SF-123
Ado

\$14,500.00 21% Expires 6/22/71

Interest 253.75 per month \$8.458 per diem

Billed Paid Paid through

11/14 14/14

7/14

7/21/71

SF 206 12,000.

2/15/72 Ado Homes, Inc.
 121-35 133rd Street
 South Ozone Park, New York

Hammer

\$15,000.00 21% Expires 8/15/72

Interest \$262.50 per month \$8.75 per diem

Billed Paid Paid thru

SF 186 16,800

11/22/71 Ado Homes, Inc.
 128-40 148th Street
 South Ozone Park, New York

\$21,000.00 21% Expires 5/22/72

Interest \$367.50 per month \$12.25 per diem

Billed Paid Paid thru

10/7/71 Frida Enterprises, Inc.
226 Cornelia St, Bklyn

Charles Friedman

\$8,000.00 24% Expires 4/7/72

Interest \$160.00 per month \$5.333 per diem

Billed Paid Paid thru

2/2/72 Glare Homes Sales Corp.
134-54 158 Street
Jamaica, New York

SF 203 18,800.

Stelmike

\$25,500.00 18% Expires 8/2/72

Interest \$352.50 per month 11.75 per diem

Billed Paid Paid thru

SF 202 14,800.

1/28/72 Home Transfer Corp.
 104-38 134 Street
 Richmond Hill, New York

Rosensweet

\$18,500.00 21% Expires 7/28/72

Interest \$323.75 per month \$10.791 per diem

Billed Paid Paid thru

8/19/71 HOME TRANSFER CORP.
 88-10 213th Street
 Queens Village, N. Y. 11427

SF 172

\$13,500.00 24% expires 2/19/72

Interest \$270.00 per month \$9.00 per diem

Billed Paid Paid Through

12/17/71	Jotoi Contractors Inc. 113-27 203rd Street Hollis, New York	SF 191 9,600. Rosenthal
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\$12,000.00	18%	Expires 6/17/72
Interest	\$180.00 per month	\$6.00 per diem
Billed	Paid	Paid thru

12/22/70	Lietner & Goodman 735 Georgia Avenue Brooklyn	Creative Operating
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\$9,300.00	21%	Expires
Interest	\$162.75 monthly	\$5.425 per diem
Billed	Paid	Paid through 3/31/71

2/16/72 Mill Reef Equities Corp.
205-03 Hollis Avenue
Hollis, New York

Hawley

\$10,000.00 12% Expires 8/16/72

Interest \$100.00 per month \$3.333 per diem

Billed Paid Paid lthru

October 29, 1971

Mill Reef Equities Corp.
176-11 134th Avenue
Springfieldg Gardens N.Y. 11434

~~10/29/71~~
1976

\$26,500.00 24% Expieress April 29, 1972

Interest \$530.00 per month

Billed Paid Paid through

12/7/71	Mill Reef Equities Corp. 175-38 137 Avenue Springfield Gardens, New York	Hawley
\$22,500.00	24%	Expires 6/7/72
Interest	\$450.00 per month	\$15,00.00 per day
Billed	Paid	Paid thru

11/19/71	Mill Reef Equities Corpp. 119-37 192 Street St. Albans, New York	Hawley
19,000.00	24%	Expires 5/19/72
Interest	\$380.00 per month	\$12.666 per deim
Billed	Paid	Paid thru

12116

7/1/71 Mill Reef Equities 2nd Mortgage Hawley
 100-11 205 Street
 Hollis, New York

\$8,500.00 21% Expires 7/1/72

Interest \$148.75 per month \$4.958 per diem

Billed Paid Paid through

11/2/71 PFV Realty Corp Frank Fede
 218-17 119 Avenue
 St. Albans, New York

\$16,000.00 18% Expires 5/2/72

Interest \$240.00 per month \$8.00 per diem

Billed Paid Paid thru

SF 142

3/2/71 Richardson Realty, Inc.
 3539 Holland Avenue
 Bronx

Richardson

\$10,000.00 21% Expires 9/2/71

Interest 175.00 per month \$5.833 per diem

Billed Paid Paid through
 3/15/71 3/15/71 3/15/71

SF 156

5/17/71 Richardson Realty, Inc.
 1454 Shakespeare Avenue
 Bronx

Richardson

\$22,000.00 21% Expires 11/17/71

Interest \$385.00 per month \$12.833 per diem

Billed Paid Paid through
 5/17/71 5/17/71 5/17/71

11/25/70 Richardson Realty, Inc.
832 East 82nd Street
Bronx

Richardson

\$20,000.00 21% Expires 5/25/71

11/25/70

Interest \$350.00 per month \$11.606 per diem

Billed Paid Paid through
6/14/71 \$1000.00 on @

11/25/70 11/25/70 11/25/70

SF 128

1/7/71 Richmond Funding Corp.
41 Stanley Avenue
Staten Island

Kenneth Henick

\$17,000.00 21% Expires 7/7/71

Interest \$297.50 per month \$9.917 per diem

Billed Paid Paid through

SF-82

8/13/70 Richmond Funding Corp.
3246 Richmond Terrace
Staten Island

Kenneth Henick

{7,500.00 21% Expires 2/13/71

Interest \$131.25 per month \$4.375 per diem

Billed Paid Paid through
\$787.50 2/13/71
2/13/71

SF 129

1/7/71 Richmond Funding Corp.
43 Stanley Avenue
Staten Island

Kenneth Henick

\$17,000.00 21% Expires 7/7/71

Interest: \$297.50 per month \$9.917 per diem

Billed Paid Paid through

10/6/70 W. H. C. Realty Corp.
 1165 Dean Street
 Brooklyn

William C. Cumberbatch

\$19,000.00 21% Expires 4/6/71

Interest \$332.50 per month \$11.083 per diem

Billed Paid Paid through

W. H. C. Realty Corp.

1/7/71 Richmond Funding Corp.
47 Stanley Avenue
Staten Island

SF 130--
Kenneth Henick

\$17,000.00 21% Expires 7/7/71

Interest \$297.50 per month \$9.917

Billed Paid Paid through

1/7/71 Richmond Funding Corp.
49 Stanley Avenue
Staten Island

SF-127--
Kenneth Henick

\$17,000.00 21% Expires 7/7/71

Interest \$297.50 per month \$9.917 per diem

Billed Paid Paid through

NAME	ADDRESS	DATE	AMOUNT	CASH	DATE	AMOUNT
John A. Smith	1870	Sept 26	69			
John A. Smith	1870	Oct 14				
John A. Smith	1870	Nov 25				
John A. Smith	1870	Dec 31				
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Postman's Fundraising Corp.

113 1st St. N.Y.C.

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1100 9 Kimball Reliance Legal 68826

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DATE

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NAME *Richard L. Brundage Corp.*
 ADDRESS *117 St. Albans Ave.*
St. Albans, Vt.

DATE
 1914

POST OFFICE

NO.

DATE

ITEMS

PRICE

DATE

ITEMS

PRICE

COUNT

Nov 9 Richard Blaine Legal
CR 1700 -
CR 1702 -

Richard Henderson
 1740 to 1800
 1740 to 1800

DATE 1740

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1740

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Dr
 Richard Henderson
 1740 to 1800

157

Intim:

Richardson Kelly
46-5 White Ave
Camp, N.Y.

71

June 2

J-63 29256

Account No. SF 142

Sheet No.

Reviews

Run

Credit Limit

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NAME

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EXHIBIT 3

Correspondence Relating to Inter-Island's Warehousing Line of Credit

FIRST NATIONAL CITY BANK,
San Juan, P.R., October 22, 1968.

Mr. MICHAEL SIROTE,
Inter-Island Mortgagee Corp.,
Chase Manhattan Bank Building, Bayamón, P.R.

DEAR MR. SIROTE: As advised to you by Mrs. Otero on the telephone last week, we had received a brief cable communication from our Head Office that your request for an increase in the warehousing lines to \$2,500,000 had been approved but that the conditions of this approval would follow by airmail. We have now received the conditions upon which we are willing to grant the increase.

We feel that for the capital base of your company (\$324,000 as of May 31, 1968) the aggregate of warehousing lines at your disposal is excessive in comparison to the average U.S. mortgage banker. According to the information at our disposal, you have a total of \$7,000,000 in warehousing lines in the U.S. in addition to the present \$2,000,000 approved with us. By industry standards, this is far above a normal ratio of lines vs. net worth. Therefore, before approving the increase, we ask that you provide evidence to us that you have reduced your U.S. warehousing lines by at least an equivalent amount. According to our analysis of line utilization as of statement date, it is our impression that this should not be burdensome to you.

Additionally, we feel that in order to justify this increase of your lines, that average balances with our Bank should be higher than what you have been carrying. As a rule of thumb, we require approximately 15% of available lines to be carried in the form of balances with us.

If any of the above is not clear, please telephone me at the Bank. You undoubtedly will be in contact with Stanley on this matter, and if he would like to call direct, my private line number is 765-5715. I would like to add at this time that we have been very pleased with the manner in which your facilities with us have been handled, and we look forward to doing even a larger volume of business with you under your increased line. I trust that you appreciate the basis of our reasoning in the foregoing requests and look forward to hearing from you that you are in a position to work with us on this basis.

With best personal regards.

Very truly yours,

DONALD DE SOCARRAS, *Manager.*

P.S.—Regarding our proposal to switch to a collateralized line basis (rather than our present purchase-repurchase agreement), we can discuss that after you have regularized the above request. Our other mortgage banker friends have uniformly been pleased, even enthusiastic, about the collateral line system, as it makes the paperwork less and also give them the advantage of tax-free income while the mortgages are in warehouse.

FEDERATION BANK and TRUST Co.,
Jamaica, N.Y., April 21, 1964.

Mr. STANLEY SIROTE,
President, Inter-Island Mortgage Corp.,
Jamaica, N.Y.

DEAR MR. SIROTE: We have outstanding with you an agreement under which we warehouse mortgages for you on one or two family houses situated in the State of New York. Our commitment under this agreement is up to the sum of \$1,000,000. You have requested us to extend you a revolving credit agreement to the extent of \$300,000 for warehousing mortgage loans on one or two family houses located in Puerto Rico.

It is agreeable to us to extend an additional \$300,000 line of credit to you for the purpose of financing mortgage loans on one or two family houses in Puerto Rico, under exactly the same terms and conditions as is now provided in our outstanding agreement of October 26, 1962 with reference to mortgages on

properties in the State of New York, except that the current commitment to purchase such mortgages shall be made by a New York bank or a Savings and Loan Association whose principal office is in New York.

It is also understood that if our counsel advises us that we are required at any time to qualify as a foreign corporation doing business in Puerto Rico, you will bear the expense thereof as well as the annual taxes which we may have to pay to Puerto Rico.

Very truly yours,

FEDERATION BANK & TRUST Co.,
By CHARLES A. McMAHON,
Assistant Treasurer.

EXHIBIT 4

**Registration Statement Under the Securities Act—Preliminary Prospectus
Dated October 13, 1971, for Inter-Island Mortgage Corporation**

Registration No. 2-42103

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-1**REGISTRATION STATEMENT**

Under

THE SECURITIES ACT OF 1933**Inter-Island Mortgage Corp.**

(Exact name of Registrant as specified in charter)

**176-60 Union Turnpike
Flushing, New York 11366**

(Address of principal executive offices)

**Stanley Sirote, President
Inter-Island Mortgage Corp.**

**176-60 Union Turnpike
Flushing, New York 11366**

(Name and address of agent for service)

Copies to:

**Richard L. Braunstein, Esq.
Dow, Lohnes & Albertson
1225 Connecticut Avenue, N.W.
Washington, D.C. 20036**

**Robert Rosenman, Esq.
Cravath, Swaine & Moore
1 Chase Manhattan Plaza
New York, New York 10005**

Approximate Date of Commencement of Proposed Sale to the Public: As soon as practicable after this Registration Statement becomes effective.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Unit ^a	Proposed Maximum Aggregate Offering Price ^a	Amount of Registration Fee
Common Stock, par value \$10 per share	300,000	\$12	\$3,600,000	\$720

^aEstimated solely for the purpose of calculating the amount of the registration fee.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Inter-Island Mortgagee Corp.**CROSS REFERENCE SHEET**

Showing Location in Prospectus of Information
Required by Items of Form S-1

<u>Registration Statement Item and Heading</u>	<u>Location in Prospectus</u>
1. Distribution Spread	Cover Page
2. Plan of Distribution	Cover Page, Underwriting
3. Use of Proceeds to Registrant	Use of Proceeds
4. Sales Otherwise than for Cash	*
5. Capital Structure	Capitalization
6. Summary of Earnings	Consolidated Statement of Operations
7. Organization of Registrant	The Company
8. Parents of Registrant	Principal Shareholders
9. Description of Business	The Company, Business
10. Description of Property	Business
11. Organization Within Five Years	*
12. Pending Legal Proceedings	*
13. Capital Stock Being Registered	Description of Common Stock
14. Long-Term Debt Being Registered	*
15. Other Securities Being Registered	*
16. Directors and Executive Officers	Management
17. Remuneration of Directors and Officers	Management
18. Options to Purchase Securities	Management
19. Principal Holders of Securities	Principal Shareholders
20. Interest of Management and Others in Certain Transactions....	Certain Transactions
21. Financial Statements	Financial Statements

*Omitted because the answer is negative or the item is not applicable.

PRELIMINARY PROSPECTUS DATED OCTOBER 13, 1971

PROSPECTUS

300,000 Shares

INTER-ISLAND MORTGAGEE CORP.

COMMON STOCK

(\$.10 Par Value)

The Common Stock is traded in the over-the-counter market. On October 12, 1971, the reported closing high bid and low asked prices were \$18.00 and \$18.25, respectively. See "Price Range of Common Stock."

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS.

ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public	Underwriting Discounts, Expenses and Commissions (1)	Proceeds to Company (2)
Per Share			
Total			

(1) The Company has agreed to indemnify the several Underwriters against certain civil liabilities, including liabilities under the Securities Act of 1933 (see "Underwriting").

(2) Before deducting expenses payable by the Company estimated at \$

NEITHER THE ATTORNEY GENERAL OF THE STATE OF NEW YORK NOR THE ATTORNEY GENERAL OF THE STATE OF NEW JERSEY NOR THE BUREAU OF SECURITIES OF THE STATE OF NEW JERSEY HAS PASSED ON OR ENDORSED THE MERITS OF THIS OFFERING. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

The shares of Common Stock are offered by the Underwriters subject to receipt and acceptance of such shares by them. The Underwriters reserve the right to reject any order in whole or in part. It is expected that delivery of certificates for the shares will be made against payment therefor on or about , 1971.

C. E. UNTERBERG, TOWBIN CO.

The date of this Prospectus is , 1971.

A registration statement relating to these securities has been filed with the Securities and Exchange Commission but has not yet become effective. Information contained herein is subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

No dealer, salesman or any other person has been authorized by the Company or the Underwriters to give any information or to make any representations other than as contained in this Prospectus in connection with the offering described herein, and, if given or made, such information or representations must not be relied upon. This Prospectus does not constitute an offer or a solicitation by the Company or any Underwriter or dealer within any state to any person to whom it is unlawful to make such offer or solicitation. The delivery of this Prospectus shall not under any circumstances create any implication that there has been no change in the affairs of the Company since the date hereof. However, if any material change in the Company's affairs occurs at any time when a prospectus is required to be delivered, this Prospectus will be amended or supplemented appropriately.

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE COMPANY

Inter-Island Mortgagee Corp. is engaged in the mortgage banking business, which primarily involves the origination, sale and servicing of first mortgage loans, substantially all of which are insured by the Federal Housing Administration ("FHA") or guaranteed by the Veterans Administration ("VA"). In addition to these activities, the Company has recently begun to originate conventional first mortgage loans and real estate construction and development loans. During the fiscal year ended May 31, 1971, interest on mortgage loans originated by the Company and revenues from the sale of such loans accounted for 78%, and mortgage loan servicing accounted for 21%, of the Company's revenues. The Company, which was incorporated in New York on June 7, 1961, maintains its principal offices at 176-60 Union Turnpike, Flushing, New York, 11366, telephone 212/291-1000.

On completion of this offering, Stanley Sirote, Chairman of the Board of Directors and President of the Company, and Michael Sirote, Executive Vice President of the Company and father of Stanley Sirote, will own 45% of the Common Stock and will be in a position to control the policies of the Company (see "Principal Shareholders").

Unless the context otherwise requires, the term "Company" means Inter-Island Mortgagee Corp. and its subsidiaries.

USE OF PROCEEDS

The net proceeds from the sale of the 300,000 shares of Common Stock offered hereby will be approximately \$ and will be used for the following purposes:

(1) \$1,300,000 will be transferred to the capital of a wholly-owned subsidiary which will use the funds to pay \$170,275 of the subsidiary's indebtedness (see "Capitalization") and to originate second mortgage loans in Puerto Rico (see "Business—Puerto Rican Operations");

(2) \$200,000 will be utilized by the Company in the origination of construction and development loans (see "Business—Mortgage Originations and Sales" and "Certain Transactions");

(3) \$1,000,000 will be utilized by the Company in the origination of interim first mortgage loans (see "Business—Short-Term Real Estate Lending"); and

(4) The remainder of the proceeds, estimated at \$, will be added to the Company's general funds and will be used primarily for the origination of FHA insured or VA guaranteed mortgage loans (see "Business—Mortgage Originations and Sales").

The net proceeds of this offering will be received in trust in a special account but may immediately or from time to time thereafter be transferred to the general funds of the Company to be used for the purposes set forth above.

CAPITALIZATION

The following table sets forth the capitalization of the Company as of August 31, 1971, and as adjusted to give effect to the sale of the Common Stock offered hereby and the issuance of 19,500 shares to the principal shareholders on conversion of debt held by them.

<u>Class</u>	<u>Authorized</u>	<u>Outstanding</u>	<u>As Adjusted</u>
Notes payable—Banks:			
6¼%-6½% Secured notes (1)	\$22,500,000	\$11,986,410	\$11,986,410
6¾% Secured note (2)	1,000,000	849,933	1,000,000
8% Unsecured note	250,000	200,000	200,000
7% Convertible note (3)	97,500	97,500	—
7%-12% Miscellaneous unsecured debt (4) ..	195,275	195,275	25,000
Common Stock, \$.10 par value	1,000,000 shs. (5)	563,220 shs.	882,720 shs.

- (1) Collateralized by mortgages securing loans for which the Company has purchase commitments from permanent investors; interest rates vary from ¼ to ½ of 1% above the prime interest rate.
- (2) Collateralized by Federal National Mortgage Association Common Stock; interest rate is ¼ of 1% above the prime interest rate.
- (3) Payable to Stanley and Michael Sirote, who have agreed that they will convert the debt to Common Stock prior to the completion of the offering made by this Prospectus (see "Certain Transactions").
- (4) Debts owed to a bank and individuals, including an officer of the Company, and New York Puerto Rico Co., Inc., an affiliate of the Company, by the Company's wholly-owned subsidiary—State-Side Investment Corporation.
- (5) Includes 17,200 shares reserved for issuance upon the exercise of warrants and 15,000 shares reserved for issuance upon the exercise of options (see "Management—Stock Option Plan").
- (6) For information concerning the Company's leasehold obligations, see "Business—Property" and Note H to Financial Statements.

There are outstanding \$26,000,000 in mortgage-backed certificates of the Company which are guaranteed as to principal and interest by the Government National Mortgage Association ("GNMA"). These certificates are not included in the foregoing table since the sales of the certificates are treated as sales of mortgages and the mortgages are not shown as assets in the Financial Statements (see "Business—Mortgage Originations and Sales").

DIVIDENDS

The Company has never paid a dividend on its Common Stock and does not intend to pay cash dividends in the foreseeable future, but intends to retain earnings from operations for the development of its business. Future dividend policy will be based upon available earnings, the financial condition of the Company and other factors deemed by the Board of Directors to be relevant.

PRICE RANGE OF COMMON STOCK

The following table gives the high bid and low asked prices of the Common Stock in the over-the-counter market for the period March 11, 1969, through October 8, 1971, as reported by the National Quotation Bureau, Incorporated. These quotations represent prices between dealers and do not include retail mark-up, mark-down or commission and do not necessarily represent actual transactions. Since September 16, 1971, the Common Stock has been included in the National Association of Securities Dealers Automated Quotations (NASDAQ) system.

<u>Year</u>	<u>Bid</u>	<u>Asked</u>
1969		
March 11 to March 31	6½	5¼
2nd Quarter	14½	7½
3rd Quarter	9	7¼
4th Quarter	9¼	5½
1970		
1st Quarter	6	3¾
2nd Quarter	3¾	2¼
3rd Quarter	3	2
4th Quarter	4⅞	2½
1971		
1st Quarter	7½	4
2nd Quarter	8⅞	6
3rd Quarter	12½	6¾
4th Quarter (through October 8)	15	12¼

A recent price of the Common Stock is stated on the Cover Page.

CONSOLIDATED STATEMENT OF OPERATIONS

The following consolidated statement of operations of the Company for the five years ended May 31, 1971, has been examined by Richard A. Eisner & Company, independent certified public accountants, whose report thereon appears elsewhere in this Prospectus. This statement should be read in conjunction with the financial statements and the notes thereto (including those referenced by letters below) included elsewhere in this Prospectus.

	Year Ended May 31,				
	1967	1968	1969	1970	1971
Revenues:					
Mortgage origination (Note 1)	\$261,035	\$415,285	\$ 556,795	\$1,034,169	\$1,015,341
Interest (Note C)	178,646	308,197	640,358	824,683	1,136,486
Mortgage servicing	59,728	108,109	248,862	377,375	584,632
Other	7,606	8,577	19,187	9,319	28,934
Total revenues	507,015	840,168	1,465,202	2,245,546	2,765,393
Operating expenses:					
Selling, general and administrative	261,453	409,157	578,599	929,644	1,003,286
Interest costs (substantially mortgage warehousing) (Note C)	199,271	340,577	707,537	973,932	991,847
Total expenses	460,724	749,734	1,286,136	1,903,576	1,995,133
Operating income	46,291	90,434	179,066	341,970	770,260
Profit (loss) on sale of investments			(9,667)	7,916	43,345
Other income	4,500	2,796	10,662	21,678	30,401
	50,791	93,230	180,061	371,564	844,006
Taxes on income (including pro-forma taxes on income) (Note 2):					
Federal (Note G)	6,521	20,450	67,000	164,500	330,000
State and local	13,057	20,641	29,600	31,500	96,900
	19,578	41,091	96,600	196,000	426,900
Earnings before extraordinary items	31,213	52,139	83,461	175,564	417,106
Extraordinary items (Note 3)	11,102			(28,000)	
Net Earnings	\$ 42,315	\$ 52,139	\$ 83,461	\$ 147,564	\$ 417,106
Earnings per share:					
Before extraordinary items	\$.09	\$.14	\$.21	\$.32	\$.76
Extraordinary items .....	.03			(.05)	
Net earnings	\$.12	\$.14	\$.21	\$.27	\$.76
Average number of shares outstanding (Note 4)	364,000	364,000	403,887	551,000	550,223

Notes:

(1) The Company derives income from the origination fees and any gain arising from the sale of mortgage loans; such income is recognized upon receipt of proceeds of each mortgage. Mortgages

are sold at such times as management deems advisable. On June 1, 1971, the Company sold approximately one-half of its permanent mortgage loan portfolio (\$11,000,000 face value) to an investor institution. Upon receipt of the funds therefrom the Company recorded mortgage origination revenue of \$790,000 in the first quarter of its fiscal year ending May 31, 1972.

(2) The operations of a subsidiary, Stanley Mortgagee Corp., which maintained its accounts on the basis of a fiscal year ending August 31 (through August 31, 1968) have been recast to a fiscal year ending May 31 and have been included on that basis (Note A). Federal income taxes on the earnings of this subsidiary, which was a Subchapter "S" Corporation through August 31, 1968, are included through that date on a pro-forma basis.

(3) The extraordinary gain of \$11,102 in the fiscal year ended May 31, 1967, represents the tax benefit of a prior year's loss carryforward. The extraordinary charge of \$28,000 in the fiscal year ended May 31, 1970 (explained in Note M) is net of \$37,000 of tax benefit.

(4) The average number of shares outstanding was increased, where applicable, by the number of shares issuable on exercise of warrants and options when the market price exceeds the exercise price thereof. This increase in number of shares was reduced by the number of shares which are assumed to have been purchased with the proceeds from the exercise of the warrants and options.

The following table sets forth unaudited consolidated revenues and net earnings for the three months ended August 31, 1970 and 1971. The Company believes that the information set forth in the table includes all adjustments (which consist only of normal accruals) necessary for a fair presentation of the results of operations for such periods:

	Three Months Ended	
	August 31, 1970 (Unaudited)	August 31, 1971 (Unaudited)
Revenues:		
Mortgage origination		
Interest		
Mortgage servicing		
Other		
Total		
Net earnings		
Earnings per share		
Average number of shares outstanding		

The results of operations for the three months ended August 31, 1971, are not necessarily indicative of the results for the full year. See Note 1 to Consolidated Statement of Operations with respect to the timing of recognition of income from origination and subsequent sale of mortgage loans.

BUSINESS

General

The Company is a mortgage banker and derives its principal sources of income from mortgage loan origination (origination fees and gains and losses from the sale of mortgage loans), interest income (interest earned on mortgage loans while held by the Company for sale, net of interest paid to banks) and mortgage servicing (fees paid by permanent investors for services performed by the Company in connection with administration of mortgage loans). The table below sets forth the relative gross contribution of each of these sources of income to the Company's revenues for each of its last five fiscal years.

Service	Fiscal Year Ended May 31,				
	1967	1968	1969	1970	1971
Mortgage Origination					
Fees and Sales	\$261,035	\$415,285	\$556,795	\$1,034,169	\$1,015,341
Interest	178,646	308,197	640,358	824,683	1,136,486
Mortgage Servicing	59,728	108,109	248,862	377,375	584,632

The decrease in revenues from mortgage origination fees and sales and the increase in revenues from interest in the fiscal year ended May 31, 1971, was attributable primarily to the accumulation of mortgage loans for use in the GNMA insured certificate program, described below.

Mortgage Originations and Sales

FHA and VA Mortgage Loans. The Company makes loans secured by first mortgages on residential properties, most of which are insured by the FHA or guaranteed by the VA and sells the loans to institutional investors such as savings banks, savings and loan associations, insurance companies and the Federal National Mortgage Association ("FNMA"). The Company receives and processes loan applications from prospective home purchasers and, if an application is approved for insurance or guaranty, makes the loan for any portion or all of the purchase price of the residence. Upon origination of an FHA or a VA loan, the Company charges a fee to the home purchaser of 1% of the principal amount of the loan and a fee to the seller which varies depending upon the market conditions at the time the loan is made. The Company generally obtains loan applications through the introduction of a mortgage applicant to the Company by a real estate broker or the applicant's attorney.

The following table shows the number and dollar amount of mortgage loans made by the Company during each of its last five fiscal years:

Year Ending May 31	No. of Mortgage Loans	Principal Amount of Loans
1967	758	\$12,550,040
1968	1,419	24,555,962
1969	1,770	33,731,600
1970	1,854	36,739,980
1971	1,885	41,643,958

The Company generally originates mortgage loans only after it has obtained the commitment of institutional investors, including FNMA, to purchase a specified amount of mortgages at a fixed discount from the face amount of the loan. The Company pays fees for these commitments ranging from ½ of 1% to 1% of the principal amount of the commitment. Such commitments protect the

Company from a decline in the market for its mortgage loans through an increase in mortgage interest rates. The Company also sells mortgage loans to financial institutions with which it does not have commitments if better prices can be obtained. As of October 8, 1971, the Company had commitments with five financial institutions for the sale of mortgage loans in the total principal amount of \$16,000,000.

Mortgage loans are customarily sold to investors without recourse but with limited warranties, standard in the industry, with respect to the validity of the instrument and the status of the loan. Losses under such warranties have been negligible.

The Company recognizes income from interest on an accrual basis and income from mortgage origination fees and the sale of mortgage loans upon receipt of the sale proceeds. Accordingly, by retaining or selling mortgage loans, the Company has the opportunity to elect the fiscal period in which income is to be recognized.

During the fiscal year ended May 31, 1971, the Company sold approximately 1,135 mortgage loans in the approximate amount of \$22,500,000 to six financial institutions from which it had commitments and approximately 225 mortgage loans in the approximate amount of \$4,500,000 to four other financial institutions. Of the foregoing institutions, the following accounted for 5% or more of the Company's sales of mortgage loans: FNMA, 52%; Anchor Savings Bank, 22%; and East River Savings Bank, 13%.

The FNMA, a private corporation, the purpose of which is to moderate the supply and demand factors in the FHA and VA mortgage market, is a substantial purchaser of mortgages at all times, and the prices established in its bi-weekly auctions are the generally accepted market prices for FHA and VA mortgage loans. In periods of tight money, FNMA increases its purchases of FHA and VA mortgage loans. Through these purchases FNMA provides a market for government insured mortgages and tends to counteract tight money conditions.

In March 1971, the Company began selling mortgage-backed certificates of the Company to institutional investors under a program sponsored by GNMA, an agency of the Federal Government. These certificates are guaranteed by GNMA and are secured by FHA and VA mortgages originated by the Company and deposited by it with a commercial bank which acts as custodian. During the period March 1–August 1, 1971, approximately \$26,000,000 in certificates backed by mortgages in the same amount were delivered by the Company pursuant to the GNMA program, of which certificates backed by pools of \$24,000,000 in mortgages were sold to a single institution. These transactions are treated in the Financial Statements as sales of mortgages.

In the interval between origination and sale, the Company pledges its mortgage loans to banks under "warehouse" loan agreements, the proceeds of which are used by the Company as working capital. In most cases, the amount of the warehouse loan is equal to the amount of the purchase commitment for the mortgage loan. On October 8, 1971, the Company had warehousing agreements with six banks totaling an aggregate of \$24,000,000, at interest rates varying from $\frac{1}{4}$ to $\frac{1}{2}$ of 1% above the prime interest rate charged by the lending bank, of which approximately \$12,205,000 had been borrowed. For the first time in recent years, interest income during the fiscal year ended May 31, 1971, exceeded interest cost. The warehousing of loans prior to their sale is an important method of obtaining working capital, and the cancellation of one or more of the Company's warehousing agreements, without replacement by other agreements, would have a material adverse effect on the Company's business. There can be no assurance that the warehousing agreements will be renewed. The availability of warehousing agreements is subject to various economic conditions beyond the control of the Company.

Conventional Mortgage Loans. In the past, most of the permanent first mortgage loans made by the Company were insured by the FHA or guaranteed by the VA. In 1971, however, the Company began

originating first mortgage loans on residential properties in New York and Puerto Rico which were not insured or guaranteed by the FHA or the VA. To date, the Company has originated 59 conventional loans in the total principal amount of approximately \$1,500,000. Conventional mortgage loans are usually made in amounts which do not exceed 75% of the purchase price and at interest rates which are from ½ to 1% higher than the interest rates on FHA and VA mortgage loans. The Company warehouses and sells conventional loans in the same general manner as FHA and VA loans. The Company has been approved in Puerto Rico and Florida by the Mortgage Guaranty Insurance Corporation ("MGIC"), a private company which insures against losses of up to the first 20% of conventional loans up to a maximum limit of 90% of the appraised value of the residence, thus increasing the amount of the mortgage loan which a lender will make. Issuance of insurance by MGIC is contingent upon approval of the individual loan, the borrower and the property and origination of the loan by an approved lender. MGIC insurance is not presently available in New York, but the Company is in the process of preparing applications for approval by MGIC in California, Kentucky, New Jersey and Ohio.

Mortgage Servicing

Mortgage servicing includes the collection of mortgage payments, payment of real estate and related taxes, maintenance of insurance on the premises secured by the mortgage, settlement of insurance claims pertaining to the mortgaged premises, maintenance of all books and records pertaining to the mortgage loan, supervision of foreclosure proceedings in the event of default and performance of certain other related acts on behalf of the institutional owner of the mortgage. The Company generally enters into a servicing agreement with an institutional investor simultaneously with the sale of a mortgage loan to such investor. The Company began servicing in 1964, and since 1967 has entered into servicing agreements for substantially all the mortgage loans which it has sold. The following table sets forth the number and principal amount of mortgage loans serviced by the Company for institutional investors during each of the last five fiscal years:

<u>Year Ended May 31</u>	<u>No. of Mortgage Loans</u>	<u>Principal Amount at Year End</u>
1967	1,095	\$ 16,506,897
1968	2,181	34,443,668
1969	3,906	65,794,273
1970	6,309	111,647,155
1971	7,500	136,350,000

As of September 30, 1971, the Company was servicing 8,306 mortgage loans in the principal amount of \$154,694,094.

The Company presently has servicing agreements with 29 financial institutions of which the following accounted for more than 5% of the principal amount of mortgages serviced by the Company during the past fiscal year: FNMA, 56%; New York and Suburban Federal Savings and Loan Association, 10%; and Dime Savings Bank of Williamsburgh, 6%. The Company also services the loans held in the pools which back its GNMA insured certificates and retains a portion of the interest collected as compensation for its services.

The servicing agreements generally provide for a servicing fee of ¼ to ½ of 1% per annum on the unpaid principal amount of mortgage loans which the Company services. The servicing agreements generally run the life of the mortgages covered by the agreement, the majority of which are for a 30-year term. As the unexpired term of each mortgage decreases, the principal amount of the mortgage

is reduced by payments of amortization and, therefore, the amount of the servicing fee decreases. The servicing agreements provide for termination by the institutional investor, but in the event of termination without cause, substantially all the agreements provide for a penalty of from $\frac{1}{2}\%$ to 1% of the unpaid principal balance of the mortgage loans held under the servicing agreement.

Short-Term Real Estate Lending

Interim Mortgage Loans. The Company originates interim first mortgage loans which have a term of approximately six months and which are secured by existing one- to four-family homes. These loans are made to real estate investors as a means of financing between the time the investor purchases a home and the time it is resold to an owner-occupant. Mortgage loans of this nature are not insured by the FHA or guaranteed by the VA and, thus, are less secure than FHA or VA mortgages and bear a substantially higher interest rate.

In the fiscal year ended May 31, 1971, the Company made 102 interim mortgage loans in the total principal amount of \$1,396,880, at interest rates substantially in excess of the prevailing long-term mortgage rate. The Company makes interim mortgage loans primarily to existing customers of the Company and relies principally on the value of the home for the security of its loan. Interim loans are made only on properties which the Company believes will be eligible for FHA insured or VA guaranteed permanent loans; in most cases, the property has been appraised by the FHA or the VA prior to the issuance of the interim mortgage loan by the Company. In the experience of the Company, appraisal by the FHA or the VA usually assures approval of the premises for insurance or guarantee upon the sale of the premises to a qualified purchaser. In addition to the high interest rate on the interim loan, the Company obtains the added benefit of having an increased opportunity to make the permanent first mortgage loan and in its last fiscal year made the permanent loan on each property on which it made an interim loan. On October 1, 1971, interim mortgage loans in the approximate amount of \$188,000 were past due. The Company believes that it will sustain no loss on these loans, even if not paid, because the value of the security underlying such loans exceeds the amount of the loans and customary foreclosure costs. The Company intends to expand its interim mortgage lending to Florida, New Jersey, Ohio and California (see "Use of Proceeds").

Construction Loans. In the Fall of 1971 it is contemplated that the Company will begin making loans to finance the construction of one- and two-family homes in Florida and Puerto Rico. Construction loans are not eligible for FHA insurance or VA guarantees; however, they will be made by the Company only after the Company has received a commitment from the FHA or VA stating the amount of the permanent mortgage loan which it will insure or guarantee upon completion of the home and its sale to a qualified purchaser. Construction loans will be made in fixed amounts with payments under the loan made at various stages of construction. The Company's policy will be to make stage payments to the builder only after the FHA or VA has certified that the stage called for in the construction loan agreement has been reached. To provide additional financing for the origination of construction loans, the Company has obtained a line of credit from a Florida bank, in the amount of \$1,000,000 and bearing an interest rate of $\frac{1}{2}$ of 1% above the prime interest rate in effect at the lending bank. Construction loans have a higher degree of risk than do insured or guaranteed loans, but the Company believes that it will benefit from the origination of such loans because of their substantially higher interest rate and the increased opportunity of originating the permanent first mortgage loans.

Branch Offices

Although the activities of the Company have been heretofore conducted primarily in New York

and Puerto Rico, the Company has recently opened branch offices in New Jersey, Florida and California and a branch office in Ohio which also serves Kentucky. In addition, the Company is presently in the process of opening two additional branch offices in California and two additional offices in Florida. Except for the New Jersey and one Florida office, the branch offices are operated by branch managers under employment contracts pursuant to which the managers are compensated by salary and profit sharing arrangements. In some cases, a significant percentage of the profits from a branch operation may be earned by the manager. The persons employed by the Company as branch managers under these arrangements have experience in mortgage banking in the locality in which they are employed. The Company believes that the branch offices will enable the Company to expand both its origination and servicing of mortgage loans.

Puerto Rican Operations

The Company has been operating as an FHA and VA lender in Puerto Rico since April 1964. Since November 1970, these operations have been carried on by Inter-Island Mortgagee Corp. of Puerto Rico, a wholly-owned subsidiary.

On June 1, 1971, the Company acquired the stock of State-Side Investment Corporation, which originates second mortgage loans on residential properties in Puerto Rico. A second mortgage is a mortgage on property which is subject to a first mortgage and other liens. Under Puerto Rican law, second mortgage loans may be made for a term of from two to three years at an interest rate of 9% if the amount of the loan does not exceed \$3,000, or 8% if the loan is in excess of \$3,000. Such loans may be discounted in advance, which increases the effective interest rate to the lender. During the fiscal year ended May 31, 1971, State-Side Investment Corporation made 168 second mortgage loans in the total amount of \$460,768. Since second mortgage loans are not insured or guaranteed by any government agency and the property securing the second mortgage loan is subject to a prior lien, such loans are subject to substantially greater risks than first mortgage loans because the security may be dissipated in satisfaction of the prior lien. During the fiscal year ended May 31, 1971, there were no defaults on second mortgage loans made by State-Side Investment Corporation. The Company acquired State-Side from Stanley and Michael Sirote, President and Executive Vice President of the Company, respectively (see "Certain Transactions").

The income of the Company's two subsidiaries which operate in Puerto Rico is not subject to United States income tax so long as it is not returned to the United States through dividends to the Company. It is the present intention of the Company to retain such income in Puerto Rico for the development of the business of its subsidiaries.

Other Activities

Florida Joint Venture. In November 1969, the Company entered into a joint venture agreement with a construction company for the construction of two condominium apartment buildings, containing a total of 124 apartment units, in Sarasota, Florida. Under the terms of the joint venture agreement, the Company shares equally in the profits or losses of the joint venture and has agreed to indemnify the other joint venturer for one-half of any damages suffered by the joint venturer due to its assumption of a mortgage in connection with the purchase of real estate on behalf of the joint venture (see Note F-2 to Financial Statements). Construction financing for the first of these buildings, containing 61 units, has been obtained in the amount of \$2,725,000 due August 1973 and bearing an interest rate of 10%. Construction of the first apartment building began in August 1971, and it is estimated that construction of this building will be completed in August 1972. At September 20, 1971, 10 apartment units had been sold.

Title Insurance Agency. In connection with its Florida operations, the Company acts as agent for a title insurance company. The Company processes applications for title insurance, examines abstracts of title and issues title insurance binders and policies, which insure real estate owners and mortgagees against loss by reason of defective titles, liens and encumbrances.

Brokerage. The Company also acts as a mortgage broker for other mortgage bankers by arranging for commitments from institutional investors to purchase mortgage loans and by selling mortgage loans to permanent investors. The Company obtains its clients through advertising and solicitation by telephone and mail. The Company is compensated for its services by a fee based upon the principal amount of the mortgage loans sold for the mortgage banker. The Company's activities in this field have been limited.

The contribution of each of these activities to the Company's income has not been material.

Competition

All phases of the Company's business are highly competitive, and many of the Company's competitors have significantly greater financial resources than the Company. The Company cannot be considered a significant factor in the mortgage banking industry.

Regulation

The Company is subject to the rules and regulations of the FHA and the VA with respect to the origination and servicing of FHA insured and VA guaranteed mortgages. Such rules and regulations, among other things, prohibit discrimination and fix maximum interest rates and origination fees which may be charged to mortgagors. Maximum interest rates on mortgage loans, including interim and construction loans, are all subject to the law of the state in which the loan is made. Changes in the rules and regulations of the FHA or the VA or in state laws could have a material effect on the Company's business.

Employees

The Company employs 91 full-time personnel, of whom five are executive officers, six are in managerial capacities, 14 are salesmen, seven are collection personnel and 59 are administrative and clerical personnel. The Company is not a party to any collective bargaining agreements and considers its employee relations to be satisfactory. The Company maintains a blanket fidelity bond in the amount of \$700,000, covering all its employees.

Property

The Company owns no real estate. Its principal office at 176-60 Union Turnpike, Flushing, N.Y., contains approximately 15,000 square feet of floor space and is occupied under a lease expiring on May 31, 1978, with an annual rental of \$81,420. The leases on its seven branch offices expire at various times from April 1, 1973, to June 30, 1976, and have an aggregate annual rental of approximately \$35,000. The Company believes that its present offices are adequate for its business. The Company is also obligated until April 30, 1973, to pay an annual rental of \$39,908 for office space which it used as its principal office until September 25, 1971. The Company intends to sublease these offices, although no sub-tenant had been found as of the date of this Prospectus.

MANAGEMENT

Officers and Directors

The executive officers and directors of the Company are as follows:

Name	Office
Stanley Sirote	President, Chairman of the Board and Director
Michael Sirote	Executive Vice President and Director
Katherine Koury	Senior Vice President, Secretary and Director
Lowell Winerman	Vice President
Carmela L. Gregory	Treasurer

Each of the officers and directors has been employed by the Company for more than the past five years, except Mr. Winerman who, prior to his employment by the Company in June 1971, had been a self-employed mortgage broker for more than five years.

Remuneration of Officers and Directors

The aggregate direct remuneration paid by the Company during the fiscal year ended May 31, 1971, to each director and officer whose aggregate direct remuneration exceeded \$30,000 and to all directors and officers as a group is as follows:

Name	Capacity In Which Remuneration Received	Aggregate Remuneration
Stanley Sirote	President	\$ 55,000
Michael Sirote	Executive Vice President	50,000
All officers and directors as a group (3 persons)....		127,100

Carmela Gregory and Lowell Winerman were elected as officers of the Company in June 1971. It is estimated that during the current fiscal year the aggregate direct remuneration of all the present officers and directors of the Company will be \$188,000.

Stock Option Plan

On November 15, 1968, the Company adopted a Qualified Stock Option Plan (the "Plan") pursuant to which 15,000 shares of Common Stock were reserved for issuance upon exercise of options designated as "qualified stock options" under Section 422 of the Internal Revenue Code of 1954. The Plan provides for the grant of options to key employees of the Company, including officers and managerial or supervisory personnel. Employees who own directly or indirectly more than 5% of the outstanding shares of Common Stock are not eligible to receive options under the Plan. Options may not be granted under the Plan after November 14, 1978, and are exercisable over a period of not more than five years after the grant, in such installments as may be determined by the Board of Directors. The exercise price may not be less than the fair market value of the shares on the date the options are granted and in no case may be less than \$5 per share. If an option granted under the Plan terminates or expires without having been exercised in full, the unpurchased shares subject to that option will be available for a further grant of options under the Plan.

The following table sets forth the number of shares of the Common Stock subject to outstanding options.

Name	No. of Shares	Option Price	Expiration Date
Katherine Koury	7,000	\$5.00-\$6.50	3/13/74 to 6/ 3/76
All directors and officers as a group (3 persons)	8,300	\$5.00-\$6.50	3/13/74 to 6/ 3/76
All other employees (32 persons)	6,700	\$5.00-\$6.50	3/13/74 to 6/ 3/76

A recent price of the Common Stock is stated on the Cover Page.

PRINCIPAL SHAREHOLDERS

The following table sets forth, as of October 1, 1971, and after giving effect to the sale of the shares offered hereby, the record and beneficial ownership of the Common Stock by the principal shareholders of the Company and by its officers and directors as a group.

<u>Name and Address of Shareholders</u>	<u>Type Ownership of Common Stock</u>	<u>Number of Shares</u>	<u>% of Class 10/1/71</u>	<u>% of Class After Public Offering (1)</u>
Stanley Sirote 610 Longacre Avenue Woodmere, New York	Record and Beneficial	285,580	50.7%	33.5%
Michael Sirote 2100 East Hallandale Beach Boulevard Hallandale, Florida	Record and Beneficial	93,340	16.6%	11.7%
All directors and officers as a group (5 persons)	Record and Beneficial	382,820	68 %	45.6%

- (1) Gives effect to the issuance of 19,500 shares to Stanley and Michael Sirote upon conversion of debt held by them.

CERTAIN TRANSACTIONS

On June 1, 1971, the Company acquired State-Side Investment Corporation. Prior to the acquisition, 50% of the stock of State-Side was owned by Stanley Sirote, President and Chairman of the Board of Directors of the Company, and 50% of the stock was owned by Michael Sirote, Executive Vice President of the Company, who had purchased the stock in February 1970 for \$10,000. Subsequent to the purchase, the Messrs. Sirote each loaned \$48,750 to State-Side and the Company loaned a total of \$35,000. In connection with the acquisition, the State-Side shares were converted into 13,320 shares of Common Stock, which amount was equal to the net worth of State-Side on June 1, 1971, divided by \$5.00. On February 4, 1971, when the terms of the merger were decided upon, the high and low bid price of the Common Stock was \$4.75 and the high and low asked price was \$5.25. Until May 31, 1972, Stanley and Michael Sirote must return such number of shares of the Common Stock as shall equal the amount of any undisclosed liabilities of State-Side divided by \$5.00. The Messrs. Sirote have the right, until May 31, 1972, to convert the debts owed to them by State-Side into Common Stock at the rate of \$5.00 per share, and they have agreed that they will so convert the debts prior to the completion of this offering. In this acquisition, the Company acquired a debt of \$53,275 to New York Puerto Rico Co., Inc., a corporation owned by Stanley Sirote, which debt will be paid out of the proceeds of the offering made by this Prospectus.

During the Company's past two fiscal years, Stanley Sirote has from time to time taken advances against his salary. The largest amount outstanding at any single time was approximately \$41,000. These advances were unsecured and did not bear interest. Mr. Sirote repaid the advances at various times over the period through deductions from his salary and direct cash repayments. At the date of this Prospectus, Mr. Sirote was not indebted to the Company. In the future, the Company will not make salary advances to employees who are also principal shareholders of the Company.

Stanley and Michael Sirote each owns 25% of the stock of a corporation which builds one- and two-family homes in Florida. The other 50% is owned by an unrelated party. Stanley and Michael Sirote have agreed to sell their interest in this corporation to the Company for such number of shares of Common Stock (not to exceed 3,000 shares) as shall equal their share of the net worth of the

corporation divided by \$14 (the market price on the date of agreement). It is anticipated that the Company will make construction loans to this corporation in the future and that FHA and VA mortgage loans may be made on homes constructed by this corporation. It is anticipated that approximately \$50,000 of the proceeds of this offering may be loaned to this corporation.

Stanley Sirote is the sole owner of a fire insurance agency which at times arranges for policies on homes subject to mortgages originated by the Company. This agency does not solicit business from the Company's mortgagors, but provides policies only if the mortgagor does not provide a fire insurance policy at the time the loan is made or if the mortgagor does not renew his fire insurance policy upon expiration.

DESCRIPTION OF COMMON STOCK

The Company is authorized to issue 1,000,000 shares of Common Stock. Each share of Common Stock has one vote and there are no preemptive, subscription, redemption or conversion rights applicable thereto. The outstanding shares of Common Stock are entitled to receive such dividends as may be available therefor and, upon liquidation, to share in any assets available for distribution on Common Stock. The outstanding shares of Common Stock are, and the shares offered for sale hereby will be, upon sale and payment therefor, fully paid and non-assessable.

The transfer agent for the Common Stock is the Franklin National Bank, New York, New York and the Registrar is the National Bank of North America, New York, New York.

The Company furnishes to shareholders annual reports which contain audited financial statements and intends to furnish quarterly reports containing unaudited financial data.

UNDERWRITING

In the Purchase Agreement, the Underwriters, represented by C. E. Unterberg, Towbin Co., have agreed severally, subject to the terms and conditions therein set forth, to purchase, and the Company has agreed to sell to them, the respective number of shares of Common Stock set forth below. The Underwriters are committed to take and pay for all such shares if any are taken.

<u>Underwriter</u>	<u>Address</u>	<u>No. of Shares</u>
C. E. Unterberg, Towbin Co.	61 Broadway New York, N.Y. 10006	

UnderwriterAddressNo. of Shares

Total	<u>300,000</u>
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The Underwriters propose to offer all or part of the shares directly to the public at the public offering price set forth on the cover page of this Prospectus. The Underwriters may allow a concession to selected dealers who are members of the National Association of Securities Dealers, Inc. or certain foreign dealers of not exceeding \$..... per share, and the Underwriters may allow and such dealers may realow to members of the National Association of Securities Dealers, Inc. and to certain foreign dealers a concession of not exceeding \$..... per share. After the initial public offering, the public offering price and such concessions may be changed.

The Company has agreed to indemnify the Underwriters against certain liabilities that may be incurred in connection with this offering, including certain liabilities under the Securities Act of 1933.

In order to enter into the Purchase Agreement with the Underwriters, the Company, on August 24, 1971, agreed to pay to an investment banking firm the sum of \$20,000 in consideration of the waiver and release of a right of first refusal on any public offering of the Common Stock. This right was acquired under the terms of an underwriting agreement executed by the Company in connection with a previous public sale of its Common Stock.

LEGAL OPINIONS

Legal matters in connection with the sale of the shares of Common Stock offered hereby are being passed upon for the Company by Messrs. Dow, Lohnes & Albertson, 1225 Connecticut Avenue, N.W., Washington, D.C. 20036, and for the Underwriters by Messrs. Cravath, Swaine & Moore, 1 Chase Manhattan Plaza, New York, New York 10005. The firm of Dow, Lohnes & Albertson owns 5,000 shares of Common Stock.

EXPERTS

The Financial Statements and related schedules included in this Prospectus and elsewhere in the Registration Statement, except as they pertain to unaudited periods, have been examined by Richard A. Eisner & Company, independent certified public accountants, whose opinions thereon appear elsewhere in this Prospectus and in the Registration Statement, and have been included herein and therein in reliance upon such firm and their authority as experts.

REGISTRATION STATEMENT

The Company has filed with the Securities and Exchange Commission, Washington, D.C. a Registration Statement under the Securities Act of 1933 with respect to the Company and the securities offered by this Prospectus. This Prospectus contains a fair summary of the material provisions of all documents referred to herein, many of which have been filed with the Securities and Exchange Commission as exhibits to the Registration Statement of which this Prospectus is a part. This Prospectus does not contain all the information set forth in the Registration Statement and the exhibits thereto. For further information, reference is made to the Registration Statement and the exhibits, financial statements and schedules filed as a part thereof, which may be examined without charge at the office of the Commission, and photocopies of which, or any portion thereof, may be obtained upon payment of the prescribed fee. This Prospectus does not knowingly omit any material fact or contain any untrue statement of a material fact.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Inter-Island Mortgagee Corp.
Jamaica, New York

We have examined the consolidated balance sheet of Inter-Island Mortgagee Corp. and subsidiaries as at May 31, 1971, and the related consolidated statements of operations for the five years then ended and of additional paid-in capital and retained earnings and of changes in financial position for the three years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements enumerated above present fairly the consolidated financial position of Inter-Island Mortgagee Corp. and subsidiaries at May 31, 1971 and the consolidated results of their operations and changes in financial position for the periods indicated in conformity with generally accepted accounting principles applied on a consistent basis.

RICHARD A. EISNER & COMPANY
Certified Public Accountants

New York, New York
August 17, 1971

INTER-ISLAND MORTGAGEE CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS AT MAY 31, 1971

ASSETS

Current assets:

Cash in banks	\$ 1,099,490
Permanent mortgages (substantially pledged as collateral for notes payable) (Notes B and C)	21,671,069
Interim mortgages (partially pledged as collateral for notes payable) (Notes C and D)	543,275
Other receivables	137,386
Accrued interest receivable	323,446
Prepaid expenses and other current assets	243,369
Total currents assets	24,018,035
Equipment and improvements (at cost) (less accumulated depreciation of \$48,508) (Note E)	85,529

Investments:

Federal National Mortgage Association common stock (Note F-1) (pledged as collateral for notes payable)	797,852
Joint venture (Note F-2)	240,000
Deferred commitment fees	113,750
Other assets	63,748
	<u>\$25,318,914</u>
Escrow, agency and fiduciary funds (segregated and excluded from corporate assets)	<u>\$ 1,891,567</u>

The accompanying notes to Financial Statements are an integral part hereof.

INTER-ISLAND MORTGAGEE CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS AT MAY 31, 1971

LIABILITIES

Current liabilities:

Notes payable—banks:

Collateralized by mortgages under warehousing agreements (Notes B and C)	\$21,768,740
Collateralized by Federal National Mortgage Association common stock	987,993
Collateralized by equipment, etc.	5,231
Unsecured	250,000
Accrued interest payable	234,998
Accounts payable and other accrued expenses	56,843
Taxes on income (Note G)	324,738
Total current liabilities	<u>23,628,543</u>

Contingencies (Notes F-2, G and H)

STOCKHOLDERS' EQUITY

(Notes I, J, K, L and N)

Common Stock—par value \$.10 per share, authorized 1,000,000 shares; issued 551,000 shares	55,100
Warrants outstanding (Note J)	17
Additional paid-in capital	914,075
Retained earnings	<u>723,607</u>
	1,692,799
Less, treasury stock (1,100 shares, at cost)	<u>2,428</u>
	1,690,371
	<u>\$25,318,914</u>
Escrow, agency and fiduciary funds held	<u>\$ 1,891,567</u>

The accompanying notes to Financial Statements are an integral part hereof.

INTER-ISLAND MORTGAGEE CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ADDITIONAL PAID-IN CAPITAL
AND RETAINED EARNINGS

	Year Ended May 31,		
	1969	1970	1971
Additional paid-in capital:			
Balance—June 1	\$ 2,145	\$914,075	\$914,075
Transfer from Common Stock in connection with recapitalization (Note I)	217,600		
Capital stock of subsidiary, donated to Company (Note A)	3,000		
Excess (\$4.90 per share) of sales price over par value (\$.10 per share) of 172,000 shares of Common Stock sold in a public offering, less \$177,720 costs incurred in connection therewith (Note J)	665,080		
Excess (\$2.10 per share) over par value (\$.10 per share) of 12,500 shares of Common Stock given as compensation for legal services (Note K)	26,250		
Balance—May 31	<u>\$914,075</u>	<u>\$914,075</u>	<u>\$914,075</u>
Retained earnings:			
Balance—June 1	\$ 73,626	\$158,937	\$306,501
Net earnings	83,461	147,564	417,106
Taxes on income of Stanley Mortgagee Corp. charged to pro-forma earnings, but not paid or payable by the Company*	1,850		
Balance—May 31	<u>\$158,937</u>	<u>\$306,501</u>	<u>\$723,607</u>

*See Note 2 to Consolidated Statement of Operations.

The accompanying notes to Financial Statements are an integral part hereof.

INTER-ISLAND MORTGAGEE CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended May 31,		
	1969	1970	1971
Source of funds:			
Operations:			
Earnings before extraordinary items	\$ 83,461	\$ 175,564	\$ 417,106
Items not requiring the use of funds:			
Depreciation and amortization	9,143	14,364	16,216
Common Stock issued for services rendered (Note K)	12,500		
Pro-forma taxes on income (Note 2 to Consolidated Statement of Operations)	1,850		
Decrease in deferred income	(10,642)		
Funds provided from operations, exclusive of extraordinary items	96,312	189,928	433,322
Extraordinary items (Note M)		(28,000)	
Funds provided from operations	96,312	161,928	433,322
Proceeds of sale of Common Stock and warrants, net of underwriting costs and expenses (Note J)	682,547		
Proceeds of sale of equipment			3,700
	<u>\$ 778,859</u>	<u>\$ 161,928</u>	<u>\$ 437,022</u>
Application of funds:			
Increase (decrease) in investments:			
Federal National Mortgage Association Common Stock (Note F-1)	\$ 207,107	\$ 440,317	\$ 150,428
Other	(16,667)	125,870	114,130
Purchase of equipment	40,219	30,313	21,412
Increase (decrease) in deferred commitment fees	136,911	(67,898)	21,197
Increase in other assets	20,073	17,389	17,586
Acquisition of 1,100 shares of treasury stock			2,428
Increase (decrease) in working capital	391,216	(384,063)	109,841
	<u>\$ 778,859</u>	<u>\$ 161,928</u>	<u>\$ 437,022</u>
Increase (decrease) in working capital consists of:			
Increase in cash	\$ 98,045	\$ 177,895	\$ 590,356
Increase (decrease) in mortgage portfolio	4,665,016	(1,200,944)	14,504,351
Increase in other receivables, prepaid expenses and other current assets	99,399	164,865	344,681
(Increase) decrease in notes payable	(4,315,697)	488,077	(14,993,442)
(Increase) in other current liabilities	(155,547)	(13,956)	(336,105)
	<u>\$ 391,216</u>	<u>\$ (384,063)</u>	<u>\$ 109,841</u>

The accompanying notes to Financial Statements are an integral part hereof.

INTER-ISLAND MORTGAGEE CORP. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

Note A—Principles of Consolidation:

The Financial Statements include the accounts of the Company and its subsidiaries (all wholly-owned) enumerated below:

Stanley Mortgagee Corp.

Inter-Island National Brokerage Corp.

Inter-Island Mortgagee Corp. of Puerto Rico

Four inactive subsidiaries, of which three were dissolved prior to May 31, 1971, are not included for any period.

Intercompany transactions and account balances have been eliminated in consolidation.

The Company's equity in the net assets of its subsidiaries exceeded its investment therein by \$26,471. Upon consolidation, \$2,145 of this difference has been credited to additional paid-in capital and \$24,326 has been credited to retained earnings.

All the outstanding capital stock of Stanley Mortgagee Corp. was contributed to the Company on October 16, 1968. The transaction was accounted for as a pooling of interests with additional paid-in capital being credited for the stated value of the subsidiary's stock so contributed. Accordingly, the operations of Stanley Mortgagee Corp. are included in the Consolidated Statement of Operations for periods prior to its acquisition.

During the year ended May 31, 1970, the Company invested \$8,750 for stock in IIM Mortgage Investment Corporation of the Caribbean and Inter-Island First Mortgage Investments. These companies are not included in the Financial Statements (see Note M-1).

Note B—Principles of Accounting:

The Company derives income from the origination and subsequent sale of mortgage loans; income on sale is recognized upon receipt of proceeds of each mortgage. Mortgages are sold at such times as management deems advisable. (With respect to the sale of mortgage-backed certificates, reflected as sales of mortgages in the Financial Statements, see "Business—Mortgage Originations and Sales—FHA and VA Mortgage Loans" elsewhere in this Prospectus.)

On June 1, 1971, the Company sold approximately one-half of its permanent mortgage loan portfolio (\$11,000,000 face value) to an investor institution. Upon receipt of the funds therefrom the Company satisfied the warehousing indebtedness thereon (see Note C) and recorded mortgage origination revenue of \$790,000 in the first quarter of its fiscal year ending May 31, 1972.

The permanent mortgages reflected on the balance sheet as at May 31, 1971, are stated at cost (i.e. net of discounts and origination fee) which is below market.

Note C—Mortgage Warehousing:

As a means of financing the closing of its mortgage loans, pending their ultimate sale, the Company has entered into agreements with various banks under which it "warehouses" or pledges the mortgages as collateral for short-term borrowing generally payable on demand. During the "warehouse" period, the Company collects the interest on the mortgage for its own account.

INTER-ISLAND MORTGAGEE CORP. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS—(Continued)

Note D—Interim Mortgages:

The Company invests in short-term first mortgages on one to four family homes, which mortgages are not guaranteed by the Federal Housing Administration or Veterans' Administration. Certain of these mortgages are past-due at May 31, 1971; however the Company believes it will sustain no loss on such investments because of the value of the underlying property.

Note E—Equipment and Improvements:

Expenditures for maintenance and repairs are charged to current operations; renewals and betterments are capitalized. Upon retirement or other disposition of equipment, the cost and accumulated depreciation are removed from the asset and accumulated depreciation accounts, and the net gain or loss is reflected in operations. Fully depreciated assets are written off against accumulated depreciation.

Depreciation is computed on the straight-line method using the following estimated useful lives:

Office equipment	5-10 years
Vehicles	3 years

Leasehold improvements are amortized on the straight-line method over the term of the lease.

Note F—Investments:

(1) Under agreements with Federal National Mortgage Association (FNMA) providing for the sale of mortgage loans to FNMA and the subsequent servicing thereof, the Company has acquired shares of FNMA common stock (partially purchased upon FNMA commitment and partially received as a portion of the proceeds). The Company records the receipt of such shares at cost. Under rules promulgated by FNMA, companies servicing portfolios for FNMA must continue to hold an amount of shares determined by a formula applied to the serviced portfolio. At May 31, 1971, the Company held 23,222 shares, which was sufficient to satisfy this requirement. The quoted market value of FNMA stock at May 31, 1971, substantially exceeded the Company's cost.

(2) In November 1969, the Company entered into a joint-venture with another corporation to acquire and improve land in Florida. On March 10, 1970, the joint-venture acquired land in the name of the co-venturer, and assumed a mortgage of \$468,000. The Company has agreed to indemnify the co-venturer for its pro-rata share in the event that any loss is sustained in connection therewith. As at May 31, 1971, the joint-venture had not begun construction on the property. The joint-venture's tax returns through December 31, 1970, reflect no income or expense since all expenditures to that date had been capitalized. The Company's contributed capital to the joint-venture totaled \$240,000 at May 31, 1971.

Note G—Income Taxes:

Inter-Island Mortgagee Corp. and its subsidiaries file separate income tax returns. The federal income tax returns of the companies have not been examined in recent years; the companies do not anticipate any material assessment for unexamined years.

During the year ended May 31, 1971, the Company formed a "possessions" corporation to conduct business in the Commonwealth of Puerto Rico. As such it is not subject to federal income tax under

INTER-ISLAND MORTGAGEE CORP. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS—(Continued)

Note G—Income Taxes (continued):

the provision of Section 931 of the Internal Revenue Code. Income so exempted from income taxes aggregating \$21,000 from its inception through May 31, 1971.

Note H—Leases:

The Company occupies space under leases expiring at various dates through May 1978 at annual rentals aggregating \$157,000.

Note I—Recapitalization:

In November 1968, the authorized capitalization of the Company was changed from an aggregate of 1,000 shares of Common Stock, without par value, to 1,000,000 shares of Common Stock, par value \$.10 per share, and 1,820 shares of the new stock were exchanged for each of the 200 shares then outstanding. In this connection, the Company transferred \$217,600 from its capital stock account to additional paid-in capital.

Note J—Prior Underwriting:

On April 2, 1969, the Company sold, pursuant to a registration statement filed with the Securities and Exchange Commission, 172,000 shares of its Common Stock at \$5.00 per share, less an underwriting commission of \$.50 per share. Pursuant to the terms of the underwriting agreement, the underwriter paid \$17.20 for warrants to purchase 17,200 shares of Common Stock exercisable for a period of five years at a price of \$5.50 per share commencing March 11, 1970. At May 31, 1971, 17,200 shares of Common Stock were reserved for issuance upon exercise of the warrants. The Company agreed that, upon request of the holders of a majority of the outstanding warrants and/or shares of Common Stock issued upon exercise thereof, it will take such steps as may be necessary to permit such holders to make a public offering of their warrants and/or shares and will bear the expenses thereof once.

Note K—Issuance of Common Stock for Services:

Pursuant to an agreement entered into on September 17, 1968, the Company issued 7,500 shares of Common Stock to one of its attorneys as compensation for services to be rendered over a two year period. Upon issuance of these shares it charged \$15,000 to prepaid expense (\$2 per share) (which it amortized to expense over the two year period) and credited its capital stock account for \$750 (par value of the shares) and additional paid-in capital for the excess (\$14,250).

Pursuant to another agreement entered into in March 1969, the Company issued 5,000 shares of Common Stock to one of its attorneys in consideration of legal services to be rendered in the amount of \$12,500. Upon issuance of these shares, the Company charged prepaid expense for the aggregate amount (which it amortized to expense over a twelve month period) and credited capital stock for the par value thereof (\$500) and additional paid-in capital for the excess (\$12,000).

Note L—Employees' Stock-Option Plan:

In November 1968, the Company adopted a qualified stock-option plan, which authorizes the granting of options to key employees for the purchase of up to 15,000 shares of Common Stock.

INTER-ISLAND MORTGAGEE CORP. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS—(Continued)

Note L—Employees' Stock Option Plan (continued):

The option price is not less than \$5 per share nor less than 100% of the fair market value of the stock on the date of grant. The plan terminates ten years from the date of its adoption.

Options are outstanding as follows:

<u>Date of Grant</u>	<u>Date Exercisable</u>	<u>Number of Shares Under Option</u>	<u>Option Price* Per Share</u>	<u>Total</u>
March 13, 1969	March 13, 1970	4,000	\$5	\$20,000
	to			
	March 13, 1974			
January 12, 1971	January 12, 1972	2,500	\$5	12,500
	to			
	January 12, 1976			

*Fair market value on date of grant.

As of March 13, 1970, the options for the purchase of 4,000 shares became exercisable. At that date, quoted market value was \$3 per share.

When options are exercised, the Common Stock account will be credited with the par value of the shares issued and the balance of the proceeds will be credited to additional paid-in capital. No charge will be made to operations in connection with stock options.

No options had been exercised by May 31, 1971.

The Company has reserved 15,000 shares of its Common Stock for issuance pursuant to the plan.

Note M—1970 Extraordinary Items:

(1) In June 1970, two affiliates of the Company withdrew a Registration Statement which they had filed under the Securities Act of 1933 in connection with a proposed public offering of stock. As of May 31, 1970, the Company wrote-off its investment in these companies and incurred additional expenses in connection with the offering. The corporate charters of these companies expired May 31, 1971.

(2) During the year ended May 31, 1970, the Company wrote-off a \$20,000 investment made in connection with an option (which lapsed) to purchase land in Puerto Rico.

Note N—Subsequent Events:

(1) See Note B with respect to sale of mortgages on June 1, 1971.

(2) On June 1, 1971 the Company acquired State-Side Investment Corporation (SSIC), which was then owned by officers and principal stockholders of the Company. SSIC is in the business of granting second mortgage loans on residential property in Puerto Rico. Unaudited financial statements of SSIC reflect stockholders' equity of \$66,600 as at May 31, 1971, and net earnings of \$50,000 for the year then ended. SSIC is not subject to federal income tax (similarly to the "possessions" corporation described in Note G).

INTER-ISLAND MORTGAGEE CORP. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS—(Continued)

Note N—Subsequent Events (continued):

Pursuant to the terms of the merger agreement 13,320 shares of Common Stock were issued to the former stockholders of SSIC; such number of shares being computed by dividing the stockholders' equity of SSIC by an assigned value of \$5 per share.

Among the liabilities of SSIC is \$97,500 due to the former stockholders. Under the terms of the merger agreement this indebtedness may be converted at any time prior to May 31, 1972, into additional shares of Common Stock at \$5 per share at the option of the holders.

The Company intends to account for this acquisition as a purchase.

Note O—Supplementary Profit and Loss Information:

	Charged Directly to Profit and Loss Selling, General and Administrative Expenses		
	May 31, 1969	May 31, 1970	May 31, 1971
Maintenance and repairs	\$ 4,340	\$ 9,696	\$ 7,907
Depreciation and amortization	9,143	14,364	16,216
Taxes, other than income taxes:			
Payroll taxes	16,143	27,225	26,809
Other	1,033	2,025	2,614
Management and service contract fees	None	None	None
Rent (no royalties)	34,442	54,660	55,851

Part II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 22. *Marketing Arrangements.*

Reference is made to Paragraphs 3, 4, 8 and 9 of the Agreement Among Underwriters and Paragraphs 3, 8 and 9 of the Selected Dealer Agreement, filed as Exhibits 1(a) and 1(c) to the Registration Statement.

ITEM 23. *Other Expenses of Issuance and Distribution.*

The following table sets forth the various expenses in connection with the sale and distribution of the securities being registered, other than underwriting discounts and commissions:

	Amount
Registration Statement Filing Fee	\$720
NASD Filing Fee	460
Fees and Expenses of Transfer Agent and Registrant*	
Printing and Engraving Expenses*	
Legal Fees and Expenses*	
Accounting Fees and Expenses*	
Blue Sky Fees and Expenses*	
Miscellaneous*	
Total	

*To be added by amendment.

ITEM 24. *Relationship with Registrant of Experts Named in Registration Statement.*
None.

ITEM 25. *Sales to Special Parties.*

Reference is made to Item 26.

ITEM 26. *Recent Sales of Unregistered Securities.*

(a) On March 11, 1969, the Company issued to Myron Freidman 10,000 shares of Common Stock, 7,500 as compensation for legal services performed and to be performed by him and 2,500 as a finder's fee. No underwriters were involved in this transaction.

(b) On May 29, 1969, the Company issued 5,000 shares of Common Stock to the law firm of Dow, Lohnes & Albertson for legal services performed and to be performed by such firm at a value of \$2.50 per share. No underwriters were involved in this sale.

(c) On September 30, 1971, the Company issued 13,320 shares of Common Stock to Stanley and Michael Sirote in connection with the acquisition of State-Side Investment Corporation. Information concerning this acquisition is given in the Prospectus under the captions "Business—Puerto Rican Operations" and "Certain Transactions". No underwriters were involved in this acquisition.

(d) From March 1, 1971 to August 1, 1971, the Company sold \$26,000,000 in GNMA insured, mortgage-backed certificates to various institutional investors. No underwriters were involved in these sales.

The shares issued in transactions (a), (b) and (c) were not registered under the Securities Act of 1933 since these transactions did not involve public offerings and thus the shares issued in each were exempt from registration under the Act by virtue of Section 4(2) thereof, and the certificates sold in the transactions mentioned in item (d) were not registered because of the exemption contained in Section 3(a)(2) of the Act.

ITEM 27.

Name of Corporation	State of Organization	Percentage of Securities Owned
Inter-Island Mortgagee Corp. of Puerto Rico (1)	Delaware	100%
Stanley Mortgagee Corp. (1)	New York	100%
Inter-Island Brokerage Corporation (1)	Delaware	100%
State-Side Investment Corporation (2)	Delaware	100%
Gulf Title Corporation (3)	Delaware	100%
Inter-Island Mortgagee Corp. of Florida (3)	Delaware	100%
Inter-Island Mortgagee Corp. of California (3)	Delaware	100%

(1) Included in Consolidated Financial Statements.

(2) Not included in Consolidated Financial Statements because stock acquired after end of fiscal year.
See Note N to Consolidated Financial Statements.

(3) Not included in Consolidated Financial Statements since organized after end of fiscal year.

ITEM 28. *Franchises and Concessions.*

The Company is approved by the Federal Housing Administration as a mortgage lender, the general effect of which is described in the Prospectus under the heading "Business-Mortgage Originations and Sales."

ITEM 29. *Indemnification of Directors and Officers.*

Article XI of the Company's By-Laws provides as follows:

"The corporation shall indemnify directors and officers and their heirs, executors and administrators to the full extent permitted by Sections 722 and 723 of the Business Corporation Law of the State of New York. The corporation, by appropriate action of its Board of Directors, may indemnify directors and officers and their heirs, executors and administrators to the full extent permitted by subsections (b) and (c) of Section 724 of the Business Corporation Law."

Insofar as indemnification by the Company for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Company pursuant to the foregoing, or otherwise, the Company has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in said Act, and is, therefore, unenforceable. In the event that a claim for indemnification (other than the payment by the Company of expenses incurred or paid by the director, officer or controlling person in the successful defense of any action, suit or proceeding) for liabilities arising under said Act is asserted against the Company by a director, officer or controlling person thereof, in connection with the securities being registered, the Company will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether or not such indemnification of such director, officer or controlling person is against policy as expressed in said Act and will be governed by the final adjudication of such issue.

ITEM 30. *Treatment of Proceeds from Stock Being Registered.*

Of the net proceeds to be received by the Company for the Common Stock being registered hereunder, an amount equal to the par value thereof will be credited to the Common Stock Account. The remainder of such net proceeds will be credited to Additional Paid-in Capital.

ITEM 31. *Financial Statements and Exhibits.*

(a) Financial Statements

The following financial statements and supporting schedules are filed as part of this Registration Statement:

Included in the Prospectus:

Report of independent certified public accountants.

Consolidated balance sheet as at May 31, 1971.

Consolidated statement of operations for the five years ended May 31, 1971.

Consolidated statement of additional paid-in capital and retained earnings for the three years ended May 31, 1971.

Consolidated statement of changes in financial position for the three years ended May 31, 1971.

Included in Part II:

Schedule II—Amounts due from directors, officers, and principal holders of equity securities other than affiliates—for the three years ended May 31, 1971.

The information required in Schedule XVI is presented in Note O to the financial statements. Other schedules not submitted are omitted for the reason that they are not required or are not applicable.

(b) Exhibits:

1(a) Form of Agreement among Underwriters.

(b) Form of Purchase Agreement.

(c) Form of Selected Dealer Agreement.

2 Merger Agreement dated March 15, 1971.

3(a) Amended Articles of Incorporation filed as Exhibits (a)-(e) to Registration Statement No. 2-30956 and incorporated herein by reference.

(b) By-Laws filed as Exhibit 3(f) to Registration Statement No. 2-30956 and incorporated herein by reference.

- 4(a) Form of Common Stock certificate filed as Exhibit 4(a) to Registration Statement No. 2-30956 and incorporated herein by reference.
- 4(b) Form of Common Stock Purchase Warrant filed as Exhibit 4(b) to Registration Statement No. 2-30956 and incorporated herein by reference.
- 5(a) Qualified Stock Option Plan filed as Exhibit 5(a) to Registration Statement No. 2-30956 and incorporated herein by reference.
- 5(b) Form of Qualified Stock Option Contract filed as Exhibit 5(b) to Registration Statement No. 2-30956 and incorporated herein by reference.
- 6 Opinion of Dow, Lohnes and Albertson (to be filed by amendment).
- 12 See answer to Item 29.
- 13(a) Standard Form of Servicing Contract.
- 13(b) Branch Office Agreements:
 - 13(b)(1) Branch Office Agreement between Company and Robert H. Jesse, Jr., dated September 10, 1971.
 - 13(b)(2) Branch Office Agreement between Company and Jane W. Cowley dated September 3, 1971.
 - 13(b)(3) Branch Office Agreement between Company and Richard H. Hooper dated September 16, 1971.
- 13(c) Joint Venture Agreement between Company and Willow Industries, Inc. dated November 12, 1969.
- 13(d) Indemnification Agreement between Company and Willow Industries, Inc. dated March ..., 1970.
- 13(e) Leases:
 - 13(e)(1) Lease with Willow Industries, Inc. with respect to Sarasota County, Florida properties.
 - 13(e)(2) Lease with F.R.A.C. Corporation with respect to Peekskill, New York property.
 - 13(e)(3) Lease with 1374-76 Clove Road Corporation with respect to Staten Island, New York property.
 - 13(e)(4) Lease with Gables Offices, Inc. with respect to Coral Gables, Florida offices.
 - 13(e)(5) Lease and rider with Bohack Corporation with respect to Flushing, New York offices.
 - 13(e)(6) Leases, as amended, with Boro Office Corporation with respect to Jamaica, New York offices.
 - 13(e)(7) Lease with Chase Manhattan Bank, as amended, with respect to Puerto Rico offices.
 - 13(e)(8) Lease with Main Builders, Inc. with respect to East Orange, New Jersey property.
- 13(f) Purchase Agreements:
 - 13(f)(1) Purchase Agreements with New York and Suburban Federal Savings and Loan Association.
 - 13(f)(2) Purchase Agreement with Lawrence Cedarhurst Federal Savings and Loan Association.
 - 13(f)(3) Purchase Agreements with Gem City Savings and Loan Association.
 - 13(f)(4) Purchase Agreements with Federal National Mortgage Association.
 - 13(f)(5) Purchase Agreement with Government National Mortgage Association.
- 13(g) Warehousing Agreements:
 - 13(g)(1) Warehousing Agreements with the Franklin National Bank.
 - 13(g)(2) Warehousing Agreement with the Bank of Commerce.
 - 13(g)(3) Warehousing Agreement with the Security National Bank.
 - 13(g)(4) Warehousing Agreement with the Pan American Bank.
 - 13(g)(5) Warehousing Agreement, as amended, with the National Bank of North America.
 - 13(g)(6) Warehousing Agreement with the Chase Manhattan Bank.
- 13(h) Agency Agreement between Commonwealth Land Title Insurance Company and Gulf Title Corporation dated August 11, 1971.
- 13(i) Form of Government National Mortgage Association insured certificate and Guaranty Agreement with the Company.

UNDERTAKINGS

Subject to the terms and conditions of Section 15(b) of the Securities Exchange Act of 1934, the undersigned registrant hereby undertakes to file with the Securities and Exchange Commission such supplementary and periodic information, documents and reports as may be prescribed by any rule or regulation of the Commission heretofore or hereafter duly adopted pursuant to authority conferred in that Section.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on the 13th day of October, 1971.

Inter-Island Mortgagee Corp.

by STANLEY SIROTE
STANLEY SIROTE, President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>STANLEY SIROTE</u> STANLEY SIROTE	President and Director (Principal Executive, Financial and Accounting Officer)	October 13, 1971
<u>MICHAEL SIROTE</u> *	Director	October 13, 1971
<u>KATHERINE KOURY</u> KATHERINE KOURY	Director	October 13, 1971

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We consent to the inclusion of the following reports in the Registration Statement to be used in registering under the Securities Act of 1933, Common Stock \$.10 par value of Inter-Island Mortgage Corp.:

1. Our report dated August 17, 1971 relating to the financial statements appearing in the Prospectus; and
2. Our report dated August 17, 1971 relating to the supporting schedule included in Part II of the Registration Statement.

We also consent to the references to our firm under the caption "Consolidated Statement of Operations" and "Experts" in the Prospectus.

RICHARD A. EISNER & COMPANY
Certified Public Accountants

New York, New York
October 13, 1971

CONSENT OF COUNSEL

The consent of Messrs. Dow, Lohnes & Albertson will be contained in their opinion to be filed as Exhibit 6 to this Registration Statement.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS AS TO SCHEDULE

Board of Directors
Inter-Island Mortgagee Corp.
Jamaica, New York

The examination referred to in our report dated August 17, 1971, included the related supporting Schedule II for the three years ended May 31, 1971, which is included in Part II of the Registration Statement. In our opinion such schedule presents fairly the information set forth therein.

RICHARD A. EISNER & COMPANY
Certified Public Accountants

New York, New York
August 17, 1971

SCHEDULE II**INTER-ISLAND MORTGAGEE CORP. AND SUBSIDIARIES****AMOUNTS DUE FROM DIRECTORS, OFFICERS, AND PRINCIPAL
HOLDERS OF EQUITY SECURITIES OTHER THAN AFFILIATES**

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>	<u>Column E</u>
<u>Name of Debtor</u>	<u>Balance Receivable at Beginning of Period</u>	<u>Additions</u>	<u>Deductions Collections</u>	<u>Balance Receivable at Close of Period Current</u>
For the year ended May 31, 1969				
Not required				
For the year ended May 31, 1970				
Stanley Sirote	None	\$38,426	\$ 4,500	\$33,926
For the year ended May 31, 1971				
Stanley Sirote	\$33,926	28,574	51,000	11,500

As at May 31, 1971, the Company held the following loans receivable from companies in which Stanley Sirote was a principal stockholder:

State-Side Investment Corporation*	\$35,000
New York Puerto Rico Co., Inc.	10,000

*Subsequently acquired by the Company (see Note N-2 to Financial Statements).

The accompanying notes to Financial Statements are an integral part hereof.

EXHIBIT 5

Letter From Stanley Sirote to Donald Carroll Dated May 8, 1972

INTER-ISLAND MORTGAGE CORP.,
Flushing, N.Y., May 8, 1972.

FEDERAL HOUSING ADMINISTRATION,
Hempstead, N.Y.

(Attention: Donald C. Carroll, Director).

DEAR MR. CARROLL: I make reference to the personal interview you afforded me on Friday, May 5, 1972 at which time I personally submitted nine files to you for review following my appearance before the Senate Anti-Trust Sub Committee on May 4, 1972.

During the month of February, 1972, Mr. Donald Lyons and Mr. Garry Roemer, Auditors for the General Accounting Office conducted a study of our portfolio whereby mortgages originated by Inter-Island and purchased by assignment from other lenders were later assigned to the Government National Mortgage Association under their mortgage backed security program. Messers Lyons and Roemer stated in their report to the subcommittee that nine loans which we originated and they reviewed, in their opinion, could constitute we were not prudent and could possibly indicate we aided and abetted others involved in the origination of the loans by deleting pertinent information necessary to obtain Federal Housing Administration approval by falsifying documentation submitted.

As you know our processing procedures are above reproach and you have instituted many of our methods through-out our industry. In addition, I have made countless suggestions as to how lending institutions could and should be policed to avoid a repercussion of the present topic. To substantiate my statements I am enclosing a listing of the nine loans in question and attaching photo copies as evidence with an accounting of each loan. I believe, upon your review, you will concur in writing as you did in person, our corporation should be absolved of any misdoing.

In view of the unfavorable publicity which we suffered by the New York Daily News article and the Long Island Daily Press article both dated May 5, 1972, copies enclosed, coupled with our suspension of the trading of our stock by the Securities and Exchange Commission on May 5, 1972, the doubt cast on our warehousing banks, financial investor and Stockholders by the news media your letter is of the utmost importance. I firmly believe Senator Philip A. Hart and Anthony T. Accetta, Assistant District Attorney for the Eastern District should be made aware of these facts immediately.

As a former banker you are cognizant of how an audit is conducted, that being a fact finding committee enters an establishment and upon completion of their findings same is discussed at length with the personnel responsible for operations. I do not intend in any way to discredit the capability of Messers Lyons and Roemer, however, not being familiar with the mechanics of mortgage banking and not having discussed their findings with us I do believe they drew erroneous conclusions involving the above mentioned nine mortgage loans. By doing so we have been placed in a very precarious position.

I deeply appreciate your cooperation in this matter so that Inter-Island can be justly vindicated in the eyes of the public.

Sincerely,

STANLEY SIROTE, *President.*

Senator HART. When you negotiated the purchase of mortgages from United to complete Inter-Island's GNMA pool 642, were you aware that United was planning to sell you below average quality mortgages?

Mr. SIROTE. On advice of counsel, I respectfully decline to respond to the question on the grounds the answer may tend to incriminate me.

Senator HART. Is it your intention today to invoke your fifth amendment privilege to any and all questions relating to conduct of your mortgage business?

Mr. SIROTE. Yes, sir.

Senator HART. Thank you very much.

Mr. TREANOR. Thank you, sir.

Senator HART. I would like to offer, for the record, a memorandum, prepared at the request of the committee, by the Congressional Research Service of the Library of Congress, entitled "Fannie Mae's Secondary Market Operations Through FHA Insured and VA Guaranteed Home Loans."

I think it is a useful summary of the basic elements involved.

Mr. BLUM. There are a number of other documents which I would like to offer for the record; a prospectus for Inter-Island Mortgage Corp.; materials received on the subpoena for Mr. Edwin Katz. That is in documents related to the purchase transactions between Inter-Island Mortgagee and United Institutional Services; and the records of Inter-Island Mortgagee Corp. with respect to interim financing.

Senator HART. Without objection, they will be received.

(Exhibits follow. Testimony resumes on p. 407.)

EXHIBIT 6

The FNMA Secondary Market Operation for FHA-Insured and VA-Guaranteed Home Loans by Dr. Henry B. Schechter, the Library of Congress, Congressional Research Service, May 4, 1972

GENERAL PURPOSE OF FNMA

The general purpose of the Federal National Mortgage Association is to supplement the supply of funds for mortgage loans when and where regular institutional lenders, such as savings and loan associations and banks, have an inadequate supply of funds to meet current mortgage demands. The times when FNMA has to support the national mortgage market are the cyclical periods of tight credit when less savings flow into deposit institutions and interest rates are high. The places which need FNMA mortgage financing support, even in easy financing periods, are the rapidly growing capital shortage areas, such as Florida and Texas. It will sell such mortgages to investors when, and in places where, capital funds become plentiful.

To accomplish these purposes FNMA borrows funds through the issuance of its securities in the private securities market. It then uses these funds to purchase mortgages from mortgage loan originators. In the process, it will purchase mortgages which some mortgage loan originators wish to sell because there is little, if any private market for such mortgages, such as mortgages secured by properties in older inner-city neighborhoods. FNMA is protected against loss on such mortgages as long as they are FHA-insured or VA-guaranteed. Although FNMA was authorized in 1970 to deal in conventional mortgages and has recently begun to purchase, conventional mortgages, all but a minute fraction of its holdings and most of its current purchases consist of FHA-insured and VA-guaranteed mortgage loans.

In practise, FNMA has been primarily a buyer of mortgages. It has been a number of years since it had annual sales in excess of purchases. The FNMA portfolio presently consist of about \$19 billion in loans—about \$18.5 billion in mortgage loans and about \$0.5 billion in construction loans.

BACKGROUND AND PUBLIC REGULATION

FNMA presently is a private corporation, converted from a mixed private-public corporation under Title VIII of the Housing and Urban Development Act of 1968. It enjoys a privilege, however, of being authorized to borrow up to \$2.25 billion from the Treasury, if necessary to redeem some of its securities. That fact, plus the fact that its asset holdings are practically all mortgages that are guaranteed or insured by Federal agencies, enables FNMA to borrow funds fairly readily in the private market at interest rates prevailing for top grade securities.

The 1968 statute also provided for certain regulatory powers over FNMA by the Secretary of HUD. He has general powers to issue rules and regulations to carry out the purposes of the act. Specifically, his authority is required for FNMA issuances of different types of securities, and for indebtedness of above certain debt-to-capital ratios. The Secretary can also limit FNMA dividends. A very

practical power is the Secretary's right to require FNMA to use a reasonable proportion of its resources in mortgage purchases related to national housing goals for low- and moderate-income housing. About 30 percent of FNMA's current portfolio consists of FHA-insured mortgages on subsidized housing, such as Section 235 home mortgages, Section 236 project mortgages, and others.

MECHANICS OF THE FNMA SECONDARY MARKET OPERATION

Every two weeks FNMA holds an auction at which it sells commitments to purchase FHA-insured or VA-guaranteed mortgage loans that will be delivered to it within 4 months. The mortgage lenders who wish to obtain such commitments bid by offering to deliver a given amount of eligible mortgages (e.g. \$100,000) at a stipulated discount price (e.g. \$96,000). When a mortgage is acquired at a discount the yield is increased, e.g. a discount of 4 percentage points (price of 96) on a 7 percent mortgage, raises the yield to the mortgage holder to about 7½ percent. The discount (e.g. \$4,000) is the price that is offered by the mortgage lender seeking a FNMA commitment. The lender who obtains such a commitment knows that he can make a contemplated mortgage loan and retrieve his capital for new investment within a matter of days by delivering the mortgage to FNMA.

In return for the commitment the mortgage lender pays FNMA a commitment fee of ½ of 1 percent of the amount of mortgages he wishes to sell. The lender is not required to deliver the mortgages to FNMA, however, if the market should improve and he can sell the mortgages at an advantageous price to a private investor, such as a life insurance company or savings bank. If he does deliver the mortgages to FNMA, he must also subscribe to FNMA stock in amount equal to A of 1 percent of the amount of mortgages being sold. (The latter requirement could be raised up to a statutory ceiling of 2 percent).

In its biweekly auctions, FNMA accepts as much of the bid offerings as it wishes up to a given amount. As shown on the appended table, during the April 17, 1972 auction, for example, it accepted only \$176 million out of \$347 million in offers received, and the highest price (lowest discount) accepted would produce a yield of about 7.6 percent, which was also about the average yield for mortgage sale offers accepted. By drawing the line on mortgages accepted at each auction at a certain price and yield level FNMA can maintain a fairly stable average yield over many months as shown in the average gross yield column of the appended table. Since FNMA is the largest mortgage buyer and its auction results are widely published in the press its prices have a significant price leadership effect in the entire private secondary market for mortgages.

About 85 percent of the loans sold to FNMA are sold by mortgage companies. These companies, which do not have much capital, obtain most of their income from mortgage servicing fees. On an FHA-insured home loan, they can charge the homebuyer a 1 percent financing charge, and they will pass on to the home seller (builder, speculator or occupant) any discounts which might have to be absorbed when the mortgage is sold to FNMA or to another investor. On a poor quality mortgage, such as one on an inner-city home being sold by a speculator, the mortgage originator might be able to charge the home seller with a greater discount than it has to pay FNMA. Those mortgage companies that perform "servicing" (i.e. collection of monthly payments, keeping records, etc. for FNMA) receive an annual fee of ¾ of 1 percent of the outstanding amount of loans being serviced.

FNMA has encumbered a current outstanding debt of some \$18 billion in order to acquire the \$19 billion in loan assets that it holds. FNMA borrows through the issuance short-term commercial paper of less than 1 year maturity, and also through the issuance of debentures ranging mostly from 1 year to 10 years in maturity, some longer. It has to pay prevailing interest rates when it borrows, and presently has outstanding obligations with interest rates ranging from 4¾ to 8¾ percent, but generally in a 5½ to 7 percent range.

In order to cover expenses and earn a profit FNMA has to have a spread in average yield from its mortgage portfolio over its average cost on borrowed funds. When interest rates rise quickly and stay high for a protracted period, while FNMA is stuck with a portfolio containing lower-interest rate mortgages, it may find itself temporarily in a losing operating position. Under such circumstances it will, of course, tend to buy at higher discounts, refusing low discount mortgage offers. When interest rates fall, the FNMA spread is apt to increase and it can also sell off some of its holdings at a capital gain.

As a large borrower of several billion dollars a year FNMA can also have a significant impact on the capital market structure of interest rates, not only upon mortgage interest rates. When it steps up its borrowing volume, the effects of increased demand are felt in general upward pressure on interest rates.

FANNIE MAE MORTGAGE AUCTION COMMITMENTS, YIELDS, AND PRICES

Date	Period of commitment	Offers received	Amount (thousands)	Offers accepted ¹	Amount (thousands)	Average price	Change from previous sale	Average gross-yield	Change from previous sale	Yield: Price range
Apr. 17, 1972	4 months	270	\$347,400	70-100	\$176,300	\$95.62	-0.32	7.597	+0.045	7.759-7.578
Apr. 3, 1972	do	232	258,800	81-90	178,500	95.94	-15	7.552	+0.021	7.613-7.528
Mar. 20, 1972	do	191	202,900	47-70	86,200	96.09	+17	7.531	-0.014	7.561-7.509
Mar. 6, 1972	do	110	86,900	45-47	50,600	95.92	+0.04	7.555	-0.051	7.616-7.499
Feb. 22, 1972	do	103	68,600	18-63	44,800	95.55	+0.04	7.606	-0.006	7.627-7.549
Feb. 7, 1972	do	120	88,700	27-77	63,900	95.81	+0.01	7.612	-0.001	7.619-7.605
Jan. 24, 1972	do	129	103,600	25-77	54,900	95.60	+0.02	7.613	-0.003	7.625-7.605
Jan. 10, 1972	do	188	136,900	46-99	72,900	93.48	+0.06	7.616	-0.009	7.625-7.608
Dec. 27, 1971	do	237	224,300	50-99	148,100	93.42	+0.02	7.627	-0.002	7.633-7.615
Dec. 13, 1971	do	243	232,500	30-92	70,200	95.40	+0.28	7.627	-0.040	7.684-7.616
Nov. 29, 1971	do	216	210,600	63-87	101,100	95.12	+0.34	7.667	-0.047	7.741-7.622
Nov. 15, 1971	do	160	144,500	56-71	102,000	94.79	+0.52	7.714	-0.074	7.762-7.685
Nov. 2, 1971	do	145	126,900	11C	56,400	94.27	+1.16	7.788	-0.066	7.862-7.756
Oct. 18, 1971	do	234	219,800	163	103,600	93.81	+0.25	7.854	-0.025	7.929-7.828
Oct. 5, 1971	3 months	337	365,700	226	194,800	93.64	+0.08	7.879	-0.010	7.857-7.950
Sept. 20, 1971 ³	Proposed construction	(2)	38,400	0						7.540-8.248
Sept. 8, 1971 ³	3 months	361	437,478	89-104	198,088	93.56	+14	7.889	-0.021	7.986-7.862
Aug. 25, 1971 ³	do	363	445,190	97-104	188,595	93.42	+75	7.910	-0.087	7.862-8.044
July 26, 1971 ³	do	527	688,635	75-156	153,454	92.75	+68	8.007	-0.111	7.909-8.417
July 12, 1971	do	405	444,206	76-153	161,783	92.68	-41	8.118	+0.101	8.009-8.715
	6 months	107	140,435	32-25	38,185	91.04	-10	8.017	+0.059	7.975-8.726
June 28, 1971	Proposed construction	19	28,450	9-3	21,100	90.70	-24	8.260	+0.015	8.208-8.726
	3 months	342	356,765	222	191,848	93.09	-05	8.311	+0.036	8.304-8.345
	6 months	131	158,680	73	60,330	91.14	-46	8.245	+0.008	7.901-8.193
	Proposed construction	16	23,850	8	10,400	90.94	+97	8.275	+0.069	8.159-8.325
June 14, 1971	3 months	294	273,173	174	133,713	93.14	+46	7.950	-0.143	8.251-8.296
	6 months	326	310,457	70	47,300	91.60	+24	8.176	-0.036	7.862-8.271
	Proposed construction	37	60,780	6	10,230	91.40	-48	8.206	+0.073	8.115-8.342
June 1, 1971 ⁴	3 months	187	1,100,000	163	273,000	93.38	(2)	7.830	+0.035	8.202-8.210
June 10, 1971	do	219	188,380	109	77,146	92.17	-73	8.093	+0.109	7.73-8.12
	6 months	237	35,850	117	57,830	91.37	-58	8.212	+0.109	7.906-8.583
May 24, 1971	Proposed construction	283	242,595	141	111,600	91.89	-88	8.133	+0.234	8.109-8.410
	3 months	318	433,086	123	44,575	92.90	-2.89	7.985	+0.128	8.078-8.265
	6 months	82	117,755	17	84,436	92.95	-2.25	7.978	+0.412	7.900-8.125
May 10, 1971	Proposed construction	316	510,767	139	22,555	92.77	-2.27	8.055	+0.327	7.939-7.166
	3 months	245	462,382	82	75,722	95.79	-1.16	7.573	+0.162	7.996-8.031
	6 months	73	194,904	9	19,738	95.20	-1.12	7.656	+0.157	7.543-7.719
Apr. 26, 1971	Proposed construction	225	340,376	113	153,017	96.95	-1.29	7.678	+0.181	7.620-7.755
	3 months	150	278,495	70	126,505	96.32	-88	7.411	+0.120	7.637-7.722
	6 months	30	68,348	12	33,398	96.33	-34	7.499	+0.105	7.361-7.543
Apr. 12, 1971	Proposed construction	95	55,045	88	39,760	97.83	+0.01	7.497	+0.105	7.453-7.649
	3 months	51	49,659	27	9,424	97.08	-01	7.291	+0.047	7.477-7.622
	6 months	13	21,200	4	5,400	96.67	+11	7.394	+0.002	7.271-7.339
	Proposed construction							7.450	-0.016	7.355-7.439

See footnotes at end of table, p. 405.

FANNIE MAE MORTGAGE AUCTION COMMITMENTS, YIELDS, AND PRICES—Continued

Date	Period of commitment	Offers received	Amount (thousands)	Offers accepted ¹	Amount (thousands)	Average price	Change from previous sale	Average gross-yield	Change from previous sale	Yield: Price range
3/29/71	3 months	101	55,714	86	36,779	97.82	+ .10	7.292	-.015	7.271-7.400
	6 months	66	58,950	50	26,350	97.09	+ .01	7.392	-.002	7.336-7.475
	Proposed construction	12	7,869	9	3,869	96.56	+ .04	7.466	-.005	7.414-7.540
3/15/71	3 months	87	43,345	60	17,925	97.70	+ .80	7.307	-.109	7.279-7.500
	6 months	93	95,182	51	41,183	97.08	-.13	7.394	+ .18	7.350-7.591
	Proposed construction	23	55,139	6	14,890	96.52	+ .	7.471	-.18	7.442-7.540
3/1/71 ³	3 months	62	24,172	50	15,194	96.92	(²)	7.416	(²)	7.268-7.650
	6 months	102	114,644	48	29,394	97.21	(²)	7.76	(²)	7.339-7.700
	Proposed construction	25	47,250	5	7,300	96.39	(²)	7.489	(²)	7.409-7.560
2/8/71	3 months	49	10,605	49	10,605	99.06	+1.22	7.628	-.168	7.504-8.000
	6 months	32	12,728	32	12,728	99.34	+2.31	7.590	-3.19	7.535-7.999
1/25/71 ⁴	Proposed construction	2	135	0	0	97.84	(²)	7.796	(²)	7.750-8.012
	3 months	57	12,903	53	9,853	97.03	(²)	7.909	(²)	7.746-8.055
	6 months	51	29,156	44	25,656	97.03	(²)	7.909	(²)	7.746-8.055
12/28/70	Proposed construction	6	2,599	0	0	97.26	+ .75	8.38	-.11	96.43-98.00
	3 months	65	18,297	62	17,147	97.92	+ .56	8.29	-.08	96.75-98.25
	6 months	83	35,440	74	28,940	97.82	+ .56	8.30	-.08	97.51-97.98
	Proposed construction	7	6,947	5	3,447	97.82	+ .56	8.30	-.08	97.51-97.98

¹ Competitive and noncompetitive offers accepted shown beginning with July 12 auction where available.

² Only 3-month mandatory-delivery commitments accepted.

³ Not available.

⁴ Special Fannie Mae auction for 90-day mandatory delivery commitments, to "correct market overhang." Number of offers received and accepted were not announced and the amount, and yields were quoted in round figures.

⁵ Reflects first Fannie Mae auction conducted under the new FHA-VA 7 percent mortgage interest rate ceiling.

⁶ Reflects first Federal National Mortgage Association auction conducted under the new FHA-VA 7.5 percent mortgage interest rate ceiling as well as new system of awarding commitments to mortgage sellers submitting bids stated in terms of yield rather than price as has been the practice since the inception of the free market auction system in May 1968. Final column figures thus show the range of yields rather than the range of price as has been the case previously.

We adjourn, to resume in this room at 10:30 a.m. tomorrow, in room 2228 of this building.

(Whereupon, at 1:55 p.m., the subcommittee recessed, to reconvene at 10:30 a.m., Friday, May 5, 1972.)

Material relating to the testimony of Kiva Berwald

**Materials Furnished by Kiva Berwald in Response to Subcommittee Subpoena
Dated March 15, 1972**

HOLLENBERG, WIDDER, FISHMAN, SCHAU & LEVIN,
ATTORNEYS AT LAW,
Mineola, N.Y., March 28, 1972.

HON. JACK BLUM,
Senate Subcommittee on the Judiciary,
Washington, D.C.

DEAR MR. BLUM: With reference to the Subpoena dated March 15, 1972 served upon Mr. Kiva Berwald, I am enclosing a schedule in conjunction with items number 2 and 3.

By way of explanation, a legend appears above each street address to designate the particular corporation involved. The initial "A" stands for Argo Realty Corp.; "T" stands for Terra-Mar Enterprises, Ltd.; "G" stands for Gainmore Realty Corp.; "R" stands for Ridgewood Holding Corp.; "M" stands for Morval Realty Corp.

In the haste of preparation, it could be that certain addresses listed with a "G" also refer to Gainmore Realty Roslyn Corp.

There was very little time to prepare this schedule and I notice that the name of the vendor as requested in number 3 and the name of the purchaser have not been included. If you feel that these are necessary we will supply you with this information. In addition, there is no notation of payment for personal services as in almost 100% of the cases purchase and sale were simultaneous.

Again, if you wish these, you will be supplied. I have taken to mean that date of acquisition means date on which title passed and not contract date.

Mr. Berwald will be able to furnish to you within seven to ten days answers to numbers 1, 4, 5, and 6. Again, if the enclosed schedule is not satisfactory, please contact me so that we can correct it to your satisfaction.

Very truly yours,

MARTIN SCHAU.

HOLLENBERG, WIDDER, FISHMAN, SCHAU & LEVIN,
ATTORNEYS AT LAW,
Mineola, N.Y., April 14, 1972.

HON. JACK BLUM,
Senate Subcommittee on the Judiciary,
Washington, D.C.

DEAR MR. BLUM: With reference to the Subpoena dated March 15, 1972 served upon Mr. Kiva Berwald, I am enclosing further schedules and records as supplied to me by Mr. Berwald. There are still some, very few, blank spaces and Mr. Berwald will continue to try to turn up this information. I think you will agree that in total the records are quite complete. If you wish, he would be more than willing to come to Washington to review them with you after you have had an opportunity to go over them, or, if you wish, as you go over them. If this is desired, would you please call me as it is likely that Mr. Berwald would wish me to be present.

Very truly yours,

MARTIN SCHAU.

HOLLENBERG, WIDDER, FISHMAN, SCHAUM & LEVIN,
ATTORNEYS AT LAW,
Mineola, N.Y., April 21, 1972.

Hon. JACK BLUM,
Senate Subcommittee on the Judiciary,
Washington, D.C.

DEAR MR. BLUM: I am forwarding herewith additional records prepared by Mr. Berwald as mentioned in my last correspondence.

Very truly yours,

MARTIN SCHAUM.

STOCK OWNERSHIP—KIVA BERWALD

Purchased 40 shares "Capital Ventures" stock on December 20, 1966 at a cost of \$4,000. Purchased an additional 25 shares on January 15, 1969, at a cost of \$10,000 payable in installments over a five year period.

As a result of the sale of this stock, I have received 2149 unregistered shares of ARCS Industries stock and the following amounts of interest and principal:

Date	Principal	Interest
May 22, 1969.....	\$10,270.78	
January 2, 1970.....	9,004.69	\$463.37
January 29, 1971.....	8,148.08	1,030.39
March 12, 1971.....	27,404.80	3,034.70
May 10, 1971.....		63.58

The following is a schedule of the interest held by Kiva Berwald in real estate corporations during the period January 1, 1967–January 1, 1972:

Ridgewood Holding Corp., 245 Ridgewood Ave., Brooklyn, N.Y. Aron Steinberg $\frac{1}{3}$; Sheldon Jacowitz $\frac{1}{3}$; Kiva Berwald $\frac{1}{3}$. In 1970, Philip Berwald received 20%—Balance $\frac{1}{3}$ each of remainder.

Gainmore Realty Corp., 39 Carriage La., Roslyn Heights, N.Y., Kiva Berwald 100%.

Gainmore Realty Roslyn Corp., 39 Carriage La., Roslyn Heights, N.Y. Kiva Berwald 25%; Sheldon Jacowitz 25%; Bernard Blatt 50%.*

Morval Realty Corp., 643 Rogers Ave., Brooklyn, N.Y. Benjamin Greenberg 50%; Kiva Berwald 50%.

Terra Mar Enterprises, Ltd., 1713 Nostrand Ave., Brooklyn, N.Y. Kiva Berwald 100%.

Argo Realty Corp., 1713 Nostrand Ave., Brooklyn, N.Y. Sheldon Jacowitz 50%; Kiva Berwald 25%; Philip Berwald 25%.

Ridgewood Holding Corp. has been dissolved. Gainmore Realty Corp., Gainmore Realty-Roslyn Corp., and Morval Realty Corp. have been inactive for approximately one and a half years.

The following is a list of the combined salary and bonus received from my employer United Institutional Servicing Corporation for the period 1967–1971:

1967.....	\$13,480.00
1968.....	14,200.00
1969.....	13,333.32
1970.....	13,999.92
1971.....	15,300.00

No other moneys were received except through profits derived from the real estate corporations in which I have stock.

We are preparing a schedule of payments made to employees of the listed mortgage companies. This list will be completed and mailed on April 17, 1972.

Schedules of contracting expenses: Terra Mar Enterprises, Ltd.; Ridgewood Holding Corp.; Argo Realty Corp.; Gainmore Realty Corp.; Morval Realty Corp.; Gainmore Realty Roslyn Corp.

These schedules do not include expenses incurred by partners with whom the above corporations made joint purchases.

*Later changed to 25% and 25% to Herbert Kasoff.

TERRA MAR ENTERPRISES, LTD.—Continued

Date	Address	Contractor	Amount
1970			
Feb. 25	78 Williams	I. Ehrlick	100.00
Apr. 10	272 Vermont	A. Rabin	38.16
14	611 Wilson Ave	A. Armstrong	300.00
May 5	do	do	114.00
20	do	P. Johansson	30.00
20	do	T. Miskiewicz	255.00
June 9	do	Marcy Supply	106.53
17	2621 Avenue D	W. Rubin	300.00
23	611 Wilson Ave	A. Rabin	37.10
July 3	do	Marcy Supply Co.	68.90
3	2621 Avenue D	Geo. Brown	36.04
9	611 Wilson Ave	T & F Contracting	350.00
16	193 Palmetto St.	do	150.00
16	272 Vermont St.	do	680.00
22	3621 Avenue D	Glazer Bros.	133.56
22	do	Carmine Pascano	275.00
22	do	I. Grossman	6.00
23	193 Palmetto St.	A. Rabin	53.00
Aug. 13	311A Quincy	St. Johns Plumbing	863.90
13	342 East 29 St.	Cornell Utilities	32.83
18	2621 Avenue D	G. Goldstein	19.08
20	344 Montauk	G. Walker	100.00
21	193 Palmetto St.	O. Davis	35.00
21	344 Montauk	T & F Contracting	225.00
26	do	G. Walker	275.00
28	do	M. McPherson	60.00
28	do	T & F Contracting	200.00
Sept. 1	do	do	650.00
13	311A Quincy	Marcy Supply	47.70
13	do	Alex Rabin	58.30
3	do	St. Johns Plumbing	689.00
4	2621 Avenue D	W. Rubin	120.00
4	553 Dean St.	do	40.00
4	193 Palmetto	East N.Y. Roofing	75.00
11	253 Amboy	A. Armstrong	800.00
22	64 Teneyck	F. Mineo	575.00
22	do	T. Miskiewicz	575.00
22	155 East 35 St.	Marcy Supply Co.	62.54
24	253 Amboy St.	A. Armstrong	400.00
25	193 Palmetto	De La Cruz	75.00
Oct. 2	253 Amboy St.	P. Osgood	250.00
9	do	F. Mineo	245.00
14	do	P. Osgood	131.50
15	do	A. Armstrong	520.00
16	155 East 35th St.	B. Gelfand	11.13
19	64 Teneyck	J. Williams	375.00
26	155 East 35th St.	F. Mineo	125.00
Nov. 3	1146 East 13th St.	do	500.00
6	do	Glazer Bros.	80.00
6	do	F. Alfano	50.00
10	do	W. Rubin	650.00
11	155 East 35th St.	B. Gelfand	6.55
12	414 Miller	T & F Contracting	365.00
12	1146 East 13th St.	F. Mineo	210.00
17	do	G. Walker	120.00
23	1072 Halsey St.	A & F Plumbing	125.00
24	do	L. Dugo	260.00
28	2866 & 68th Brighton St.	G. Cascio	350.00
28	1146 East 13th St.	A. Rabin	212.00
28	1146 East 13th St.	E. McCleod	125.00
28	do	Glazer, Bros.	120.84
28	do	Nostrand Floor Covering	50.88
Dec. 2	155 East 35th St.	G. Cascio	20.00
2	1072 Halsey St.	A & F Plumbing	25.00
2	392 Chauncey	East N.Y. Roofing	220.00
5	do	T. Miskiewicz	300.00
3	155 East 35th St.	J. Alfano	60.00
7	do	H. Antoine	640.00
7	1072 Halsey St.	Allen Frazier	25.00
10	437 Montauk Ave	F. Mineo	650.00
10	75A Mauver	T. Miskiewicz	600.00
18	155 East 35th St.	do	100.00
18	75 & 77A Mauver St.	do	525.00
18	do	do	400.00
18	do	F. Mineo	400.00
31	365 Warren St.	T & F Contracting	1,000.00

TERRA MAR ENTERPRISES, LTD.—Continued

Date	Address	Contractor	Amount
1971			
Jan. 7	75A Mauver	F. Mineo	30.00
7	155 East 35th St.	do	65.00
9	1146 East 13th St.	J. Alfano	25.00
9	75A Mauver	T. Miskiewicz	390.00
15	819 East 48th St.	G. Walker	55.00
20	1072 Halsey St.	A & F. Plumbing	800.00
25	819 East 48th St.	L. Dugo	35.00
30	do	F. Mineo	500.00
1970			
Feb. 1	1042 Halsey St.	L. Dugo	240.00
4	155 East 35th St.	Kleen Heet Oil	127.42
16	819 East 48th St.	G. Walker	10.00
22	155 East 35th St.	Robert Kaiser	14.33
22	155 East 35th St.	F. Mineo	130.00
Mar. 1	819 East 48th St.	do	100.00
1	1042 Halsey	do	55.00
8	155 East 35th St.	John's Cleaning	78.00
8	155 East 35th St.	Kleen Heet	98.72
19	75 & 77 Mauver	Smith Bros.	98.97
9	do	John Bauerlein	50.88
11	155 East 35th St.	W. Rubin	235.00
12	819 East 48th St.	L. Dugo	150.00
16	1146 East 13th St.	J. Alfano	100.00
22	155 East 35th St.	G. Walker	75.00
22	do	Allied Exterminators	21.20
24	343 Essex St.	Bel-Mar Oil	1,000.00
24	407 Rutland	G. Walker	50.00
26	155 East 35th St.	Marcy Supply Co	62.54
26	407 Rutland Rd.	G. Walker	125.00
26	1146 East 13th St.	W. Rubin	75.00
26	155 East 35th St.	A. Rabin	185.50
Apr. 1	do	F. Mineo	130.00
1	819 East 48th St.	do	100.00
1	1042 Halsey	do	55.00
8	155 East 35th St.	John's Cleaning	78.00
8	do	Kleen Heet Oil	98.72
8	1146 East 13th St.	A. B. C. Fuel	100.91
9	75 and 77 Mauver	Smith Bros.	78.97
9	77 Mauver	John Bauerlein	50.88
11	819 East 48th St.	W. Rubin	235.00
2	do	L. Dugo	150.00
16	1146 East 13th St.	John Alfano	100.00
22	155 East 35th St.	G. Walker	75.00
22	do	Allied Exterminators	21.20
24	343 Essex St.	Belmore Oil	1,000.00
24	407 Rutland Rd.	G. Walker	50.00
26	155 East 35th St.	Marcy Supply	62.54
26	407 Rutland Rd.	Latham Lumber	8.25
29	1146 East 13th St.	W. Rubin	75.00
29	155 East 35th St.	A. Rabin	185.50
1	407 Rutland Rd.	F. Mineo	500.00
16	do	G. Walker	85.00
16	do	F. Mineo	500.00
19	343 Essex St.	Belmore Oil	670.00
21	407 Rutland Rd.	G. Walker	50.00
21	do	W. Rubin	800.00
27	do	Star Exterminators	26.50
27	do	Marcy Supply	166.42
29	do	Circle Oil Co	29.70
May 5	1214 Jefferson	F. Mineo	650.00
7	2058 Pacific St.	I. Grossman	26.50
7	10 Brighton 10 Terr.	W. Rubin	500.00
24	662 Osborne St.	Robert Covington	100.00
24	do	M. McPherson	35.00
19	10 Brighton 10 Terr.	A. Frazier	250.00
25	1239 Gates	F. Mineo	1,000.00
25	do	do	260.00
June 1	1214 Jefferson	do	195.00
2	1239 Gates Ave.	A. Frazier	20.00
7	1146 East 13th St.	G. Walker	40.00
10	10 Brighton 10 Terr.	Johns Carpet	460.00
15	do	F. Mineo	1,000.00
15	do	Chas. Goldstein	35.00
21	do	M. McPherson	45.00
23	1239 Gates Ave.	A. Frazier	125.00
25	662 Osborne	R. Covington	35.00
29	1214 Jefferson	W. Rubin	400.00
29	10 Brighton 10 Terr.	do	26.75
29	1239 Gates Ave.	Allied Exterminators	49.82
29	1146 East 13th St.	Thatford Glass	160.50
29	10 Brighton 10 Terr.	Eisen Floor Covering	485.00
29	662 Osborne St.	Peerless Waterproofers	

TERRA MAR ENTERPRISES, LTD.—Continued

Date	Address	Contractor	Amount
1970			
July 12	do	F. Mineo	404.00
22	do	W. Rubin	40.00
Aug. 2	274 East 32d St.	F. Mineo	135.00
4	365 Warren St.	do	630.00
9	2866 Brighton 3	Chas. Goldstein	2,000.00
19	10 Brighton 10 Terr.	RHS Electric	321.00
19	2866 Brighton 3	do	749.00
19	10 Brighton 10 Terr.	F. Mineo	50.00
19	274 East 32d St.	A. Rabin	428.00
1971			
19	274 East 32d St.	Maroy Supply	167.99
24	10 Brighton 10 Terr.	Winston Anderson	60.00
Sept. 9	119 Veronica	F. Mineo	500.00
10	819 East 48th St.	W. Rubin	70.00
13	274 East 32d St.	Figliolia Contracting	265.00
15	10 Brighton 10 Terr.	RHS Electric	255.00
17	1087 Linden Blvd.	F. Mineo	65.00
17	1273 Jefferson	do	205.00
Oct. 1	343 Essex St.	do	250.00
13	274 East 32d St.	W. Rubin	115.00
17	1273 Jefferson	F. Mineo	280.00
20	1239 Gates	Allied Exterminators	64.20
22	do	A. Frazier	775.00
27	24 Woodbine St.	W. Rubin	950.00
Nov. 3	10 Brighton 10 Terr.	C. Goldstein	238.00
3	do	J. Zinick	67.00
4	101 Stuyvesant Ave.	M. McPherson	90.00
4	119 Veronica	do	115.00
4	1214 Jefferson	F. Mineo	1,260.00
4	24 Bing St.	RHS Electric	465.00
4	do	Household Refrigeration	105.93
10	do	M. McPherson	175.00
16	101 Stuyvesant Ave.	Allied Exterminators	26.75
16	1214 Jefferson	W. Rubin	350.00
16	119 Veronica	do	400.00
16	101 Stuyvesant Ave.	do	700.00
17	24 Woodbine	M. McPherson	50.00
18	do	T. Phinn	107.00
19	367 Warren St.	Richardson Electric	200.00
22	24 Woodbine St.	Nostrand Glass	165.32
22	do	M. McPherson	110.00
Dec. 3	101 Stuyvesant Ave.	Evans Exterminator	26.50
7	do	W. Jung	150.00
7	do	P. Osgood	159.00
9	24 Woodbine St.	F. Mineo	185.00
10	274 East 32d St.	Figliolia Contracting	400.00
10	119 Veronica Pl.	Frank DeSalvo	35.00
14	101 Stuyvesant Ave.	M. McPherson	60.00
15	24 Woodbine St.	W. Rubin	300.00
16	101 Stuyvesant Ave.	M. McPherson	175.00
20	24 Woodbine St.	F. Mineo	60.00
22	do	M. McPherson	190.00
22	do	RHS Electric	15.00
1972			
Jan. 7	493 Maple St.	A & S Fuel	48.67
25	do	Jay Ess Plumbing Supply	32.11
Feb. 8	543 Pine St.	S. Williams	225.00

RIDGEWOOD HOLDING CORP.

Date	Address	Contractor	Amount
1968			
Dec. 12	310 Sumpter St.	C. De Vita	\$225.00
Do	98 Himrod	R. Berkenfed	80.00
Dec. 19	510 Vermont	V. Hernandez	200.00
Dec. 16	do	A. Ward	15.00
Jan. 27	do	V. Hernandez	90.00
Jan. 28	do	Lehman Lock Co.	15.00
Do	98 Himrod St.	A. Rabin	73.50
Jan. 31	189 Veronica Pl.	J. & T. Painting	45.96
Feb. 24	do	Marcy Supply Co.	47.45
Mar. 10	65 Spam St.	A. Armstrong	60.00
Mar. 14	do	do	75.00
Mar. 17	do	do	209.00
Do	do	Ace Fuel Co.	34.71

TERRA MAR ENTERPRISES, LTD.—Continued

Date	Address	Contractor	Amount
1968			110.00
Mar. 28	816 Hegeman Ave.	A. Armstrong	40.95
Apr. 7	310 Sumpter St.	Brookheal Union Gas	174.00
Apr. 15	816 Hegeman Ave.	A. Armstrong	250.00
Do.	310 Sumpter St.	do.	100.00
Apr. 18	do.	do.	25.00
Apr. 13	564 Linwood St.	V. Moore	50.00
Do.	do.	do.	70.00
May 25	310 Sumpter St.	A. Armstrong	376.00
May 26	do.	do.	44.52
May 9	816 Hegeman Ave.	Marcy Supply Co.	68.90
May 21	189 Veronica Pl.	Dumont Plumbing	33.00
June 6	do.	Ace Oil Co.	79.50
June 24	816 Hegeman Ave.	Marcy Supply Co.	150.00
June 27	917 Elton St.	A. Armstrong	150.00
Do.	do.	do.	175.00
July 7	211 Montauk Ave.	E. Dane	
1969			30.00
Aug. 11	do.	Richardson Electric	79.00
Sept. 9	278 Ashford St.	Marcy Supply	47.70
Oct. 6	189 Veronica P.	do.	75.00
Oct. 15	117 Pulaski St.	Missouri Rubbish	40.00
Oct. 28	275 Milford St.	R. Berkenfed	1,000.00
Nov. 7	358 Hendrix St.	T. Miskiewicz	156.88
Nov. 10	174 Van Sicker Ave.	Plumbing & Heating Corp.	50.00
Nov. 20	278 Ashford St.	A. Armstrong	500.00
Dec. 16	358 Hendrix	F. Mineo	280.00
Dec. 26	do.	Jake's Rubbish Removal	
1970			1,040.00
Jan. 8	do.	F. Mineo	100.00
Jan. 14	813 Barbey	Wechter Plumbing	132.50
Jan. 27	390 Lorimer St.	Base Ironworks	440.00
Feb. 10	358 Hendrix St.	W. Rubin	715.00
Do.	2411 Albermarle	Wechter Bros.	250.00
Feb. 17	536 Glenmore Ave.	do.	100.00
Feb. 18	390 Lorimer St.	F. Mineo	300.00
Feb. 25	Montauk Ave.	do.	160.00
Mar. 6	390 Lorimer St.	W. Rubin	23.32
Apr. 7	117 Pulaski St.	A. Rabin	75.00
May 25	369 Milford	Figorola Contracting	140.00
June 1	813 Barbey	East N.Y. Roofing	145.00
June 2	do.	do.	375.00
June 5	30 Dodsworth	F. Mineo	75.00
June 10	369 Milford	Figorola Contracting	1,390.00
Aug. 13	840 Liberty Ave.	F. Mineo	120.00
Do.	214 Sumner	F. Mineo	360.00
Aug. 26	3098 Fulton St.	L. DuGo	28.00
Sept. 13	555 Linwood St.	J. Miskiveicz	104.52
Sept. 8	3098 Fulton St.	Leo Moss	238.50
Sept. 28	do.	A. Rabin	191.33
Oct. 19	369 Mulford St.	Marcy Supply	700.00
Oct. 30	214 Summer Ave.	J. Williams	125.00
Nov. 23	3098 Fulton St.	M. Morales	120.00
Dec. 21	544 Warwick St.	L. DuGo	160.00
Dec. 28	do.	do.	160.00
Dec. 30	do.	G. Walker	
1971			315.00
Jan. 8	241 Schenck Ave.	R. Haynes	72.61
do.	544 Warwick St.	Nostrand Glass	

ARGO REALTY CORP

DATE	ADDRESS	CONTRACTOR	AMOUNT
9/12/70	509 E 45 ST	G. CASCI	345. —
9/13/70	392 CHAUNCEY ST.	W. RUBIN	120. —
9/19/70	392 CHAUNCEY ST.	G. WALKER	145. —
9/20/70	509 E 45 ST.	G. CASCI	445. —
9/20/70	392 CHAUNCEY	G. WALKER	90. —
10/1/70	509 E 45 ST.	" "	125. —
10/20/70		" "	160. —
10/20/70	392 CHAUNCEY	F. MINEO	1800. —
11/4/70	343 E 51 ST.	ADAM PANAGIATH	400. —
11/4/70	199 LOGAN } 44 HART }	AJAX LOCKSMITH	22.46
11/9/70	482 CLEVELAND ST.	L. DUGO	30. —
11/11/70	392 CHAUNCEY ST.	L. DARBONNE	30. —
11/16/70	49 HART ST.	L. DUGO	150. —
11/17/70	392 CHAUNCEY ST.	STAR EXTERMINATOR	31.80
11/17/70	392 CHAUNCEY } 272 VERMONT }	MICHAELS FUEL	92.46
11/17/70	414 MILLER AVE.	HOUSEHOLD REFRIGERATOR	94.34
11/10/70	392 CHAUNCEY ST.	F. MINEO	660. —
11/10/70	" " "	G. WALKER	180. —
11/20/70	" " "	" "	25. —
11/23/70	" " "	NESTRAND GLASS	103.35
11/24/70	" " "	FOX FLOOR &	250. —
11/24/70	" " "	G. CASCI	500. —
11/24/70	544 WARWICK ST.	G. WALKER	100. —
11/20/70	392 CHAUNCEY ST.	G. CASCI	465. —
11/20/70	" " "	F. MINEO	250. —
11/6/71	" " "	FOX FLOOR &	276.29
11/17/71	544 WARWICK ST.	T. MISKIEWICZ	210. —
11/17/71	392 CHAUNCEY ST.	G. WALKER	15. —
11/5/71	241 SCHENCK	R. HAYNES	100. —

ARGO REALTY CORP

DATE	ADDRESS	CONTRACTOR	AMOUNT
1/8/71	595 VAN SICKLE AVE.	G. CASIO	460. —
1/12/71	241 SCHENCK	R. HAYNES	160. —
1/22/71	" "	F. MINEO	55. —
1/27/71	392 CHAUNCEY ST	" "	30. —
1/26/71	49 HART ST.	T & G CONTRACTING	44.90
1/27/71	" " "	G. WALKER	50. —
1/29/71	272 VERMONT ST.	MICHAEL FUEL CO.	89.88
1/29/71	392 CHAUNCEY ST	" "	101.08
1/29/71	272 VERMONT ST	EAST N.Y. ROOFING	58.30
1/29/71	347 WINTHROP 392 CHAUNCEY	SETZEN GLASS	78.44
1/29/71	392 CHAUNCEY ST.	HOUSEHOLD REFRIGERATION	73.14
1/29/71	414 MILLER AVE.	MARCY SUPPLY CO.	178.08
1/29/71	392 CHAUNCEY ST.	" " "	95.40
1/29/71	272 VERMONT ST.	" " "	47.70
1/29/71	49 HART ST.	G. WALKER	120. —
1/29/71	241 SCHENCK AVE.	R. HAYNES	200. —
2/19/71	49 HART ST.	F. MINEO	200. —
2/24/71	117 UNDERHILL AVE.	LEHMAN LOCK CO.	26.50
2/24/71	312 CHAUNCEY ST	MICHAEL FUEL	57.29
3/5/71	2102 STRAUSS ST.	G. WALKER	60. —
3/19/71	544 WARWICK	L. JUGO	546. —
3/11/71	459 MAPLE	F. MINEO	180. —
3/11/71	544 WARWICK	F. MINEO	25. —
3/12/71	459 MAPLE	F. MINEO	500. —
3/23/71	" "	MARCY SUPPLY CO.	62.54
3/23/71	509 E 45 ST.	GIZZE TILE	21.20
3/23/71	272 VERMONT ST.	EAST N.Y. ROOFING	26.50
3/23/71	459 MAPLE ST.	F. MINEO	500. —
3/24/71	392 CHAUNCEY	MICHAEL FUEL	127.42

ARGO Realty

DATE	ADDRESS	CONTRACTOR	AMOUNT
3/4/71	459 MAPLE ST.	G. CASCIO	360. -
3/15/71	" "	G. WALKER	150. -
3/30/71	" "	F. MINEO	285. -
5/5/71	226 LIBERTY AVE } 459 MAPLE ST.	G. CASCIO	200. -
5/27/71	49 HART ST.	F. MINEO	250. -
5/27/71	459 MAPLE ST.	" "	28. -
5/25/71	633 PRESIDENT ST.	ALLIED EXTERMINATORS	26.50
5/25/71	392 CHAUNCEY ST.	MICHAEL FUEL	108.69
5/26/71	459 MAPLE ST.	G. CASCIO	100. -
6/1/71	" " "	A. RABIN	180.80
6/2/71	944 LIBERTY AVE.	F. MINEO	250. -
6/4/71	1090 BELMONT AVE	G. WALKER	100. -
6/4/71	944 LIBERTY AVE	F. MINEO	490. -
6/14/71	2818 BEVERLY RD	G. WALKER	60. -
6/14/71	" " "	" "	75. -
6/14/71	483 18 ST.	F. MINEO	500. -
6/14/71	" " "	G. CASCIO	535. -
6/27/71	2818 BEVERLY RD.	NOSTRAND GIES	65.48
6/27/71	" " "	G. CASCIO	475. -
6/29/71	2174 PARKIN AVE	F. MINEO	475. -
7/1/71	1264 MADISON	F. MINEO	500. -
7/9/71	443 MAPLE ST.	G. WALKER	300. -
7/14/71	387 LOGAN } 1070 BELMONT }	A. RABIN	155.15
7/19/71	387 LOGAN	F. MINEO	200. -
7/26/71	726 SCHENCK	G. WALKER	15. -
7/30/71	387 LOGAN	F. MINEO	226. -
7/30/71	2102 STRAUSS	" "	130. -
8/1/71	369 QUINCY ST	LEHMAN LOCK CO	16.58
8/12/71	2174 PARKIN } 971 GLENMERE } 226 LIBERTY	ALLIED EXTERMINATOR	80.25

ARCO Realty Corp

DATE	ADDRESS	CONTRACTOR	AMOUNT
8/1/71	459 MAPLE	A. RABIN	36.38
8/1/71	2102 STAPLES } 946 LIBERTY }	EAST N.Y. ROOFING	296.30
8/1/71	1090 BELMONT 483 18 ST.	HOUSE HOLD REPAIRS	185.11
8/1/71	1226 HERKIMER ST.	F. MINEO	475 -
8/1/71	944 LIBERTY } 1214 GREENE AVE }	" "	210. -
8/30/71	944 LIBERTY	A. RABIN	500. -
9/1/71	475 GLENMORE AVE.	F. MINEO	200 -
9/8/71	" " "	NOSTRAND GLASS	148.20
9/10/71	284 GLENMORE AVE	W. RUBIN	175. -
10/4/71	475 GLENMORE AVE	NOSTRAND GLASS	86.10
10/4/71	53 DOSCHER ST.	F. MINEO	350. -
10/6/71	" "	F. MINEO	165 -
11/10/71	118 COOPER ST.	" "	485. -
11/14/71	78 HENDRIX ST.	" "	180. -
11/14/71	380 HAWTHORNE	MELVIN TILE CO.	150. -
1/3/72	78 HENDRIX ST.	A. WINSTON	58. -
1/4/72	954 LIBERTY AVE.	F. MINEO	500. -
1/9/72	96 BRISTOL ST.	G. CASCIO	380. -
1/3/72	300 FIFTH AVE	ACADEMY EXTERMINATORS	240
1/14/72	954 LIBERTY AVE.	F. MINEO	460. -
1/17/72	444 FOUNTAIN AVE	EAST N.Y. ROOFING	53.50
1/17/72	954 LIBERTY AVE.	NOSTRAND GLASS & MIRROR	299.60
1/17/72	96 BRISTOL ST.	G. CASCIO	500 -
1/17/72	" "	SETZEN GLASS	92.00
2/8/72	954 LIBERTY AVE.	C. PHILLIPS	84 50. -
2/14/72	300 FIFTH AVE	B. PEREZ	100. -
2/17/72	954 LIBERTY AVE	F. MINEO	195. -
2/17/72	96 BRISTOL ST.	" "	100. -
2/27/72	954 LIBERTY AVE.	NOSTRAND GLASS	97.91

GAINMORE

6/1/67	469 ESSEX ST.	A/FRED P. ALLARD	50. —
6/2/67	" "	" "	35. —
6/23/67		H. PRIMOUS	125. —
6/24/67		KLEEN HEET	39.07
7/3/67		J. GANTHER	90. —
7/7/67		T&F CONTRACTING	388. —
8/14/67		T&F CONTRACTING	400. —
9/11/67		P. COAD	1500. —
9/14/67	469 ESSEX	EAST N.Y. ROOFING	250. —
10/1/67		J. MAKIN/KSARS	100. —
10/14/67	498 ABINGFORD ST.	T&F CONTRACTING	300. —
11/3/67		" "	300. —
11/13/67	679 CLEVELAND	HOUSEHOLD REFRIG.	78.75
12/1/67	482 HERZL ST.	T&F CONTRACTING	360. —
4/1/68	1132 SUTTER	LATHAM LUMBER	251.6
4/13/68	" "	MACROSSE LUMBER	8. —
4/27/68	" "	ROSLYN PAINT	6.63
5/11/68	455 SARATOGA	" "	5.05
5/16/68	208 BRADFORD	T&F CONTRACTING	65. —
6/5/68	310 VAN S. CLEM	MARCY SUPPLY CO.	36.75
7/15/68	553A PUTNAM	BIWAY CONST.	300. —
7/19/68	" "	" "	400. —
7/31/68	" "	" "	700. —
8/10/68	" "	" "	1000. —
9/4/68	" "	" "	500. —
9/16/68	" "	" "	500. —
9/16/68	" "	SAM BROWN	100. —
9/14/68	" "	BIWAY CONST.	500. —
9/14/68	" "	SAM BROWN	50. —
10/10/68	2711 TIDEN	GLAZER BROS	246.75

GAINFORD

10/6/68	2711 TILDEN	V. HERNANDEZ	500.—
10/18/68	553A PUTNAM	B. WAY CONSTRUCTION	500.—
10/25/68	247 54 St.	T+F CONST.	400.—
10/25/68	" "	"	800.—
10/28/68	553A PUTNAM	D. MCGINLEY	100.
10/30/68	247 54 St.	T+F CONSTRUCTION	1000.
11/1/68	" "	GLAZER BROS	44.65
11/4/68	" "	B. WAY CONST.	150.—
11/5/68	553A PUTNAM	SAM BROWN	100.—
11/5/68	" "	D. MCGINLEY	225.—
11/8/68	" "	BRUN UNION GAR	125.—
11/8/68	2711 TILDEN AVE.	RITS ELECTRIC	630.—
11/11/68	" " "	KLEEN HEET OIL	90.58
11/11/68	" " "	C. JORDAN	42.—
11/15/68	553A PUTNAM	ACE HI PLUMBING	165.75
11/15/68	" "	MARCY SUPPLY CO.	73.58
11/22/68	2711 TILDEN AVE.	SUKAY, INC.	400.—
11/22/68	" " "	V. HERNANDEZ	3150.—
11/25/68	247 54 St.	T+F CONTRACTING	800.—
11/11/68	553A PUTNAM	ELM SUPPLY	65.36
11/11/68	553A PUTNAM } 247 54 St.	B. WAY CONST.	300.—
11/11/68	553A PUTNAM	SAM BROWN	100.—
11/20/68	" "	B. WAY CONST.	100.—
11/20/68	247 54 St.	" "	200.—
11/20/68	553A PUTNAM	ACE HI PLUMBING	19.—
11/20/68	" "	MARCY SUPPLY CO	35.—
11/20/68	50 CEDAR St.	KLEEN HEET OIL CO.	174.49
11/7/69	2711 T. Tilden	R. BERKEFELD	300.—
11/20/69		KLEEN HEET OIL	147.80

GAIN MORE

1/23/69	2711 TILDEN	JACK CRANE	36.75
1/23/69	" "	CHAR. GOLDSTEIN	500.-
1/27/69	553A PUTNAM	ALEX RABIN	367.56
2/3/69	247 SY ST	I. HOLZMAN	118.65
2/13/69	" "	T&F CONTRACT.	450.-
2/23/69		T&F CONTRACTORS	585.-
2/26/69	50A CEDAR	ABACO CONTRACTORS	315.-
2/28/69	633 E 53 ST	F. MINEO	650
2/28/69	553A PUTNAM	EISEN FLOOR COVERING	307.68
3/14/69	" "	ABCO EXTERM.	21.-
3/14/69	247 SY ST	RANDY HOWE	45.76
3/14/69	383 BRADFORD	KLEIN HART & I	191.10
3/14/69	247 SY ST.	" "	71.06
3/21/69	2711 TILDEN AVE	C. GOLDSTEIN	500.-
4/2/69	" " "	F. MINEO	500
4/11/69	" " "	MELVIN TIKO.	132.50
4/11/69	" " "	VICTORIA ENTERPRISES	278.16
4/15/69	" " "	ROBERT KAISER	19.89
4/19/69	" " "	CHAR. GOLDSTEIN	1000.-
4/22/69	" " "	VICTORIA ENTERPRISES	54.87
4/25/69	245 SY ST.	F. MINEO	1000.-
4/26/69	247 SY ST.	CHRISTOS GIOKAS	330.-
5/3/69	2711 TILDEN AVE.	W. RUBIN	530.-
5/3/69	" " "	F. MINEO	140.-
5/3/69	" " "	SUKAY LINDEN	30.-
5/5/69	" " "	ALEX RABIN	153.70
5/24/69	" " "	ALBERTSON ELECTRIC SERVICE	525.-
5/26/69	245 SY ST	F. MINEO	520.-
5/28/69	50A CEDAR ST.	M. HODGES	135.-

GAINMORE

5/30/69	2711 Tilden Ave.	T & F Contracting	120.-
5/30/69	" " "	Roshan Paint	9.05
6/3/69	553A Putnam	ARTHUR MINCEY	100.-
6/14/69	50 1/2 CEDAR St.	ALEX RABIN	26.50
6/14/69	2711 Tilden	ALBERTSON Electric	231.-
7/1/69	553A Putnam	A. MINCEY	60.-
7/14/69	50 1/2 CEDAR St.	E. N. Y. Roofing	58.30
7/14/69	553A Putnam	ABCO Exterminators	21.-
8/1/69	" "	LATHAM Bros. Lumber	241.11
8/12/69	342 E 29 St.	PER JOHANSSON	292.75
8/19/69	342 E 29 St	STONE SERVICES, INC.	145.95
8/18/69	548 E 58 St	SUKAY LINOLEUM	60.-
8/18/69	" "	W. RUBIN	350.-
8/15/69	" "	F. MINEO	250.-
8/27/69	" "	FATHER & SON Floor Co.	110.-
8/27/69	" "	W. RUBIN	70
8/27/69	342 E 29 St.	VICTORIA ENTERPRISES	480.-
8/27/69	" "	P. JOHANSSON	60.-
8/28/69	" "	F. MINEO	1000.-
8/29/69	" "	E. ROBERTS	200.-
9/18/69	" "	" "	200.-
9/10/69	" "	GLAZER Bros	238.50
9/10/69	" "	THATFORD GLASS	250.-
9/10/69	" "	F. MINEO	2000.-
9/10/69	" "	E. ROBERTS	200.-
9/12/69	2711 Tilden Ave	VICTORIA ENTERPRISES	279.86
9/12/69	342 E 29 St.	THATFORD GLASS	43.-
9/19/69	" "	F. MINEO	500.-
9/23/69	" "	Boiler Life Corp.	12.72

GAINMORE

9/23/69	342 E 29 St	JAKER TRUCKING	120.-
9/23/69	" "	THATFORD GLASS	69.58
9/23/69	" "	SUKAY LINOLEUM	240.-
9/23/69	" "	W. RUBIN	800.-
9/23/69	" "	E. ROBERTS	100.-
9/24/69	" "	" "	50.-
9/24/69	" "	FATHER & SONS FLOORS	250.-
9/24/69	" "	W. RUBIN	590.-
9/24/69	" "	J & E GERSTEN	132.30
10/6/69	" "	F. MINEO	1000.-
10/6/69	" "	OSCAR CHONG	50.-
10/6/69	" "	JAKES TRUCKING	60.-
10/7/69	" "	E. ROBERTS	100.-
10/10/69	" "	F. MINEO	580.-
10/10/69	" "	W. MATOS	52.-
10/13/69	" "	E. ROBERTS	125.-
10/13/69	" "	P. JOHANSEN	27.-
10/15/69	50' h CEDAR St.	A. MINCEY	150.-
10/20/69		ROSLIN PAINT CENTER	114.05
10/25/69	342 E 29 St	J & E GERSTEN	132.30
11/10/69	53 Hull St.	G & E JONES	250.-
11/15/69	" "	E. ROBERTS	25.-
11/15/69	" "	T. I. E MART, INC.	20.-
11/15/69	348 E 48 St.	ROSLIN PAINT	215.23
11/24/69	548 E 48	FORT FENCE CO.	90.10
11/24/69	" "	M. BECKER	50.-
11/26/69	342 E 29	F. VASQUEZ	15.-
11/26/69	" "	THATFORD GLASS	48.62
11/26/69	" "	C & S FUEL	36.04
11/28/69	" "	F. MINEO	65.-

GAIN MORE

12/8/69	25 ROOSEVELT PL.	R.S./H/ PAINT	215.23
12/8/69	548 E 48 ST.	F. MINEO	305.-
12/8/69	" "	ACME SEWER	15
12/11/69	" "	TILE MART	263.58
1/23/70	" "	F. MINEO	50.-
1/30/70	" "	CVS FUEL	52.48
1/30/70	" "	THATFORD GLASS	30.04
1/30/70	" "	RHS ELECTRIC	20.-
1/30/70	789 SUMMIT AVE	R. BERKEFELD	50.-
2/6/70	548 E 48 ST.	M. BECKER	500.-
2/6/70	437 MONTAUK	C.J. FUEL	41.88
2/19/70	548 E 48 ST. } 342 E 29 }	T. MISKIEWICZ	290.-
3/30/70	50 CEDAR ST.	A. MINCEY	200.-
6/6/70	" "	MECHANICS UNLIMITED	525
7/10/70		F. MINEO	280

MORJAL

DATE	ADDRESS	CONTRACTOR	AMOUNT
5/15/67	65 LEGION	B. GELFAND	21.57
7/6/67	65 ESSEX	K. BISHOP	50.-
8/17/67	139 ESSEX ST.	L.I. BRANHAM	50.-
8/29/67	2061 STRAUSS	G. WALKER	20.-
8/28/67	" "	" "	50.-
8/28/67	" "	" "	30.-
8/28/67		B. GELFAND	26.70
9/15/67	1071 HOPKINSON	C. JOHNSON	50.-
9/15/67	" "	"	40.-
9/18/67	" "	B. GELFAND	19.-
9/18/67	1977 STRAUSS ST.	P. COAD	25.-
9/27/67	171 CRAFTON	TIDE REFRIGERATOR CO.	50.-
9/28/67	139 ESSEX ST.	REIDY & REIDY	120
9/29/67	171 CRAFTON ST	P. COAD	10.-
10/1/67	171 CRAFTON ST	TIDE REFRIGERATOR CO.	35.-
10/1/67	862 SARATOGA AVE.	C. JACKSON	50.-
10/4/67	" "	"	40.-
10/10/67	2061 STRAUSS	C. JACKSON	110
11/30/67		P. COAD	10.-
11/1/67	171 CRAFTON ST	B. ROBINSON	60.-
11/4/67		B. GELFAND	66.-
11/19/68	764 DUMONT	NEWLAND Contracting	700.-
1/27/68		KLEEN HEET	86.80
2/28/68	561 ARTHUR ST.	A. CIZUA	250.-
4/1/68		KLEEN HEET	115.53
7/29/68		" "	50.09
5/10/68		E. ANTHONY	50.-
5/24/68		B.T. HINDS	275.
5/20/68		KLEEN HEET	66.41

CASH
NOTES

MORVAL

DATE	ADDRESS	COUNTERFOR	AMOUNT
6/14/68		MARY SAPP	132.50
6/15/68		P. COAD	40.—
6/18/68		"	20
6/20/68		"	40.—
6/26/68		R. HENNESSEY	20.—
9/14/68		B. GELFAND	26.75
9/13/68		M. THOMPSON	65.—
10/16/68	862 SARATOGA	B. GELFAND	42.—
10/17/68		" "	17.13
10/18/68		K/EN HEET	236.25
1/4/69		H. MC FADDEN	75.—
1/17/69		B. GELFAND Co.	35.90
1/22/69		" "	25.—
1/27/69		P. COAD	15.—
1/28/69		" "	100.—
1/1/69		M. HODGE	175.—
1/3/69		P. COAD	250.—
1/17/69		B. GELFAND	71.81
1/19/69		P. COAD	25.—
1/21/69		" "	100.—
1/21/69		B. GELFAND	106.79
1/25/69		BAY REFRIGERATOR	141.25
1/25/69		P. COAD	30.—
1/25/69		B. GELFAND	50.—
1/27/69		P. COAD	50.—
2/5/69		B. GELFAND	90.—
2/28/69		" "	50.42
3/4/69		P. COAD	25.—
3/5/69		P. COAD	50.—
3/5/69		B. GELFAND	165.04

MORJAL

3/6/69	B. GELFAND	25. —
3/6/69	G. WALKER	20. —
3/6/69	P. COAD	150. —
3/6/69	" "	50. —
3/12/69	B. GELFAND	96.75
3/14/69	P. COAD	224. —
3/17/69	B. GELFAND	25. —
3/18/69	L. BRUCKNER	25. —
3/24/69	PAUL GOLDSTEIN	5.25
4/3/69	B. GELFAND	50. —
4/7/69	J. G. HEARS	25. —
4/16/69	M. HODGES	50. —
4/18/69	" "	50. —
4/30/69	PETER HENSON	900
5/5/69	KLEEN HEET oil	46.99
5/7/69	N. WALKER	70. —
5/27/69	B. GELFAND	25. —
6/2/69	LUMBER HEADQUARTER	94.64
7/9/69	B. GELFAND	50. —
7/24/69	KLEEN-HEET O.I	9.87
7/25/69	MELVIN HODGE	100.
7/29/69	P. COAD	100. —
7/30/69	" "	20. —
7/31/69	B. GELFAND	75.18
7/31/69	HARRY GREEN, JR	50. —
8/1/69	P. COAD	25. —
8/8/69	KLEEN HEET O.I	98.12
8/24/69	P. COAD	25. —
8/29/69	P. COAD	75. —

MORJA/

9/2/69		P. COAD	50.-
9/8/69		KLEEN HEET OIL	50.29
9/10/69		B. GELFAND	117.43
9/14/69		B. GELFAND	64.55
9/25/69		P. COAD	50.-
9/26/69		KLEEN HEET	98.68
10/20/69		" "	48.06
10/30/69	287 WINTHROP ST.	P. COAD	20.-
11/14/69	703 GEORGIA AVE	" "	100.
11/15/69	697 " "	JOHN KEY	100.-
11/17/69		P. COAD	100.-
11/18/69		KLEEN HEET OIL	134.97
12/1/69	287 HENDRIX	P. COAD	25.-
1/6/70	" "	B. GELFAND	191.07
1/8/70		KLEEN HEET OIL	467.55
1/17/70	3408 ATLANTIC AVE	PAUL COAD	100.-
1/14/70	" "	G. DAVIS	25.-
1/20/70	298 GATES AVE	P. COAD	20.-
1/24/70		B. GELFAND	50.-
2/1/70	26 VERNON AVE	" "	50.-
2/14/70	201 CLARKSON AVE.	P. COAD	10.-
	199 CLARKSON		
2/17/70		LUMBER HEADQUARTERS	30.57
2/19/70		KLEEN HEET OIL	245.26
2/19/70		LUMBER HQS	18.19
2/19/70		P. COAD	10.-
2/23/70		LUMBER HQS	39.32
2/25/70	444A JEFFERSON	N. FULLER	50.-
2/26/70		GEM LUMBER	29.50
2/27/70		G. WALKER	15.-

MORVA

3/6/70	287 HENDRIX	KLEEN HEET	136.11
3/10/70		" "	194.58
3/10/70	444A JEFFERSON	" "	202.11
3/21/70		B. GELFAND	167.87
3/25/70	261 VERNON	" "	58.—
4/13/70	287 HENDRIX	A. ARMSTRONG	58.—
5/8/70		KLEEN HEET	190.58
5/8/70		B. GELFAND	25.56
5/18/70		P. COAD	12.—
5/19/70		KLEEN HEET	112.71
6/4/70		T. CHAMBERS	150.—
6/5/70	764 HOPKINSON	A. ARMSTRONG	150.—
6/10/70	" "	P. SMITH	10.80
6/11/70	" "	B. GELFAND	50.—
6/17/70		" "	8.32
6/18/70		" "	75.—
6/25/70	588 GREENE AVE	A. ARMSTRONG	200.—
6/26/70	" " "	T. F. CHAMBERS	75.—
6/29/70	" " "	B. GELFAND	25.—
7/1/70	" " "	T. F. CHAMBERS	50
7/1/70	" " "	" "	25.—
7/7/70	280 E 55 ST.	A. MCKAY	150.—
7/7/70	" "	Tully SPERNOLI & SONS	155.80
7/10/70	" "	A. MCKAY	150.—
7/10/70	" "	M. BIRCHETTE	120.
7/10/70	764 HOPKINSON AVE.	J. SMITH	58.—
7/13/70	280 E 55 ST.	F. MINO	500..
7/15/70	" "	A. MCKAY	100
7/16/70	" "	" "	200.
7/17/70	" "	" "	250.
7/20/70	581 GREENE	T. CHAMBERS	75.—

MORVAL

7/24/70	250 E 55 St.	A. McKay	76. —
8/10/70	" "	R. BERKEFELD	100. —
8/14/70	764 HOPKINSON	J. W. Williams	100. —
8/21/70	" "	" "	200
9/4/70	280 E 55 St.	A. McKay	75. —
9/16/70	588 GREENE AVE.	JESSIE WILLIAMS	350. —
9/21/70	" "	" "	100. —
9/28/70	280 E 55 St.	R. BERKEFELD	250. —
10/16/70	" "	E. ROBERTS	80. —
10/24/70	" "	" "	100. —
10/24/70	" "	H. INNER	110. —
10/26/70	" "	E. ROBERTS	175. —
11/11/70	" "	KLEEN HEET Oil	85.26
11/23/70	" "	T. MISZKIEWICZ	35. —
12/16/70	" "	GLAZIER BROS	231. —
12/16/70	" "	KLEEN HEET Oil	11.13
12/16/70	" "	B. GELFAND	113.78
1/8/71	" "	F. MINEO	205. —
1/8/71	" "	P. JOHANSON	31.60
1/30/71	" "	F. MINEO	110. —

GAINMORE ROSTER

DATE	ADDRESS	CONTRACTOR	AMOUNT
9/26/69	452 36 ST.	E. N.Y. ROOFING	400.-
11/3/69	85 PENN ST	KLEIN HEET O.I.	130.50
11/3/69	265 54 ST.	W. RUBIN	125.-
11/3/70	68 PENN ST.	T+S CONTRACTING	33.92
2/1/70	85 PENN ST.	BRUNY BOKER RESTAURANT	32.70
3/20/70	452 36 ST.	T. MISKIEWICZ	325.-
4/29/70	85 PENN ST }	EAST N.Y. ROOFING	512.08
5/1/70	85 PENN ST.	G. BATTLE	350.-
5/8/70	1409 HERKIMER ST.	MARCY SUPPLY CO	70.49
5/8/70	" "	G. WALKER	155.-
5/14/70	" "	W. RUBIN	250.-
5/28/70	1674 8 AVE	J. SIROCCO	65.-
5/28/70	125 MONTAUK AVE	"	125.-
6/4/70	2214 STRAUSS ST	"	160.-
6/18/70	" "	T+T CONTRACTING	40.-
7/16/70	405 STONE AVE	F. MINEO	650.-
7/16/70	1409 HERKIMER	W. RUBIN	350.-
8/11/70	405 STONE	EAST N.Y. ROOFING	200.-
8/12/70	261 E 31 ST.	G. NOEL	20.-
8/12/70	" "	L. DUGO	275.-
8/13/70	" "	G. NOEL	515.54
9/4/70	405 STONE AVE.	A. RABIN	111.30
9/10/70	465 18 ST.	F. MINEO	750.-
9/10/70	" "	T. MISKIEWICZ	750.-
9/11/70	" "	G. BERT NOEL	576.-
9/14/70	" "	R. DOROGENT	200.-
9/14/70	78 WILLIAMS	L. DUGO	210.-
9/15/70	178 ST MARKS 765 18 ST 634 PRESIDENT ST }	T. MISKIEWICZ	800

GAIN MORE ROOFING

	ADDRESS	CONTRACTOR	AMOUNT
9/15/70	178 ST. MARKS 632 PRESIDENT ST } 465 18 ST.	F. MINEO	800.-
9/24/70	465 18 ST.	MARLEY SURDY	65.54
9/28/70	452 36 ST.	Alex RABIN	111.30
9/30/70	178 ST. MARKS	T&F CONTRACTING	500.-
10/5/70	465 18 ST.	L. DUGO	180.-
10/8/70	178 ST. MARKS	F. MINEO	400.-
10/13/70		G. WALKER	135.-
10/24/70	347 WINTHROP ST.	J. HELMS	75.-
10/24/70	" " "	G. WALKER	140.-
10/26/70	" " "	G. CASCIO	650.-
10/26/70	178 ST. MARKS AVE.	L. DUGO	200.-
10/24/70	347 WINTHROP ST.	F. MINEO	750.-
10/24/70	269 E 31 ST.	" "	120.-
10/30/70	178 ST. MARKS	L. DUGO	500.-
11/6/70	465 18 ST.	G. CASCIO	150.-
11/14/70	338 CARROLL ST.	L. DUGO	490.-
12/4/70	347 WINTHROP ST.	EAST N.Y. ROOFING	1150.-
12/10/70	269 E 31 ST.	G. CASCIO	220.-
3/7/71	632 PRESIDENT ST.	F. MINEO	53.-
3/7/71		" "	28.-
3/12/71	632 PRESIDENT ST.	G. WALKER	55.-
4/27/71	178 ST. MARKS AVE.	F. MINEO	150.-
8/5/71	" " "	EAST N.Y. ROOFING	300.-

Payments to employees of listed mortgage companies. These payments were made to employees of United Institutional servicing Corp. No payments were made to employees of other listed mortgage companies. Does not include payments made to closing attorneys and listed separately.

Gratuities:

11-15-67—Edna Worth, \$20.

3-1-68—Edna Worth, \$10.

For rent collections:

1-7-67—Irving Roider, 853 Hopkinson Ave., \$5.

4-10-67—Irving Roider, 853 Hopkinson Ave., \$5.

2-27-68—Irving Roider, 853 Hopkinson Ave., \$5.

10-5-68—Irving Roider, 50½ Cedar St., \$20.

11-11-68—Irving Roider, 50½ Cedar St., \$10.

Commission: 8-8-68—Irving Roider, 585 Shepherd Ave. (Sale), \$300.

As investor with Gainmore Realty Corp., Irving Roider: purchase date, Sale date, Property, Address, Investment, Profit:

10-6-67—2-16-68, 233 VanSiclen Ave., \$500—\$757. 87

6-21-71—payment date 12-15-71, 1273 Jefferson Ave., \$750—\$535.12

10-3-69—Irving Roider, Commission (finder), \$150.

Address	Purchase Date	Purchase Price	Mortgage	Mortgage Amount	Interest Rate	Sale Date	Sale Price
^G 715 Logan St	6/6/68	\$10,500	UISC	\$16,900	6 3/4 %	6/6/68	^{APPROX} \$16,900
^R 564 Linwood St	4/11/69	\$8,000	"	\$16,800		4/11/69	^{APPROX} \$17,150
^A 149 Logan St	12/22/70	\$4,500	"	\$21,750	8 1/2 %	12/22/70	^{APPROX} \$21,750
^S 715 Logan St.	11/6/68	\$11,000	"	\$16,700		11/6/68	\$17,625
^R 390 Locmar St	12/18/69	\$12,000	"	\$18,800	7 1/2 %	12/18/69	^{APPROX} \$18,800
^R 392 Locmar St.	5/23/69	\$14,000	"	\$20,000		5/23/69	\$20,150
^T 493 Maple St.	12/4/71	\$12,000	"	\$18,000		12/4/71	^{APPROX} \$18,000
^A 6 Maple Pl	8/9/71	\$14,000	"	\$22,500	7 %	8/9/71	^{APPROX} \$22,500
^R 754 Maple St.	3/4/71	\$16,000	"	\$24,300	8 %	3/4/71	^{APPROX} \$24,300
^R 67 Milford St.	1/30/69	\$10,500	"	\$15,600		1/30/69	\$16,150
^R 275 Milford St	4/20/70	\$11,500	"	\$15,750	8 1/2 %	4/20/70	^{APPROX} \$15,750
^R 369 Milford St	3/20/70	\$17,000	"	\$23,200	8 1/2 %	3/20/70	^{APPROX} \$23,200
^A 515 Miller Ave.	7/20/71	\$8,500	"	\$14,500	7 %	7/20/71	^{APPROX} \$14,500
^R 143 Montauk Ave	1/21/70	\$13,250	"	\$17,700	8 1/2 %	1/21/70	^{APPROX} \$17,700
^T 344 " "	9/28/70	\$9,000	"	\$17,250	8 1/2 %	9/28/70	^{APPROX} \$17,250
^R 569 N.Y. Ave	6/30/69	\$13,000	"	\$20,200	7 1/2 %	6/30/69	^{APPROX} \$20,200
^{MORVAL} 1319 NOSTRAND AVE.	7/22/70	\$13,500	"				
713 " "	4/12/70	\$17,000		\$22,500	4 1/2 %	4/12/70	\$22,500
^T 662 OSBORN ST.	4/26/71	\$14,000		\$19,300	8 %	6/25/71	^{APPROX} \$19,300
^{MORVAL} 478 PENNSYLVANIA AVE.	10/10/68	\$16,500	UISC	\$22,500		10/10/68	^{APPROX} \$24,350
^T 543 PINE ST.	2/22/72	\$18,100	"	\$22,300		2/22/72	^{APPROX} \$22,300
^A 2168 PITKIN AVE	6/30/71	\$15,000	"	\$20,000	7 %	6/30/71	^{APPROX} \$20,000
^G 632 Pres. St.	8/20/70	\$18,000	"	\$24,200	8 1/2 %	8/20/70	^{APPROX} \$24,200
^A 633 Pres. St.	3/26/70	\$15,200	"	\$20,300	7 %	3/26/71	^{APPROX} \$20,300
^{MORVAL} 827 PROSPECT PL.	6/20/69	\$19,000	"	\$24,500	7 1/2 %	6/20/69	^{APPROX} \$24,500
^R 117 POLASKI ST.	9/2/69	\$14,000	"	\$21,700	7 1/2 %	9/2/69	^{APPROX} \$21,700
^{MORVAL} 272 QUINCY ST.	9/9/69	\$10,000	"	\$17,900		9/9/69	\$18,200

Address	Date	Amount	Company	Rate	Date	Amount	Company
465 78 ST. ARGO	8/3/70	\$8,000	CHEMICAL BANK		9/11/70	UNKNOWN	
255 HINDLEY ST. ARGO	3/29/71	\$14,000	UISC	\$16,500	3/29/71		
96 EXISTEL ST. ARGO	1/13/72	\$11,500	SPRINGFIELD EQUITIES	\$20,000	1/13/72		
144 COOPER ST. ARGO	11/22/71	\$15,000	UISC	\$21,000	7%	11/22/71	
3306 BEDFORD AVE. ARGO	3/17/72	\$20,000	"	\$29,250		3/17/72	
444 FOURTH AVE. ARGO	1/12/72	\$15,000	"	\$21,000		1/12/72	
756 LENOX AVE. ARGO	9/30/71	\$8,250	"	\$15,800	7%	9/30/71	
49 HART ST. ARGO	1/24/71	\$16,000	"	\$23,300	8 1/2%	1/21/71	
380 HAWTHORNE ST. ARGO	11/6/71	\$27,000	CHASE Manhattan	\$30,000		11/14/71	
78 HENDERIX ST. ARGO	12/3/71	\$21,000	UISC	\$27,800	7%	12/3/71	
764 HOFKINS AVE. ARGO	5/22/70	\$12,000	"	\$19,350	8 1/2%	5/22/70	
503 HOWARD AVE. ARGO	7/20/70	\$19,200	"	\$17,750	8 1/2%	3/20/70	
505 HOWARD AVE. ARGO	3/20/70	\$17,700	"	\$17,250	8 1/2%	3/20/70	
190 HOWARD AVE. ARGO	8/5/68	\$15,750	"	\$22,000	6 3/4%	8/5/68	
444 H JEFFERSON AVE. ARGO	12/17/68	\$11,500	"	\$19,200	6 3/4%	12/17/68	
214 JEFFERSON AVE. ARGO	3/18/71	\$12,500	"	\$18,000	7%	3/18/71	
715 JECOME ST. ARGO	4/11/68	\$15,000	"	\$20,800	6 3/4%	4/11/68	
404 KOSCIUSKO ST. ARGO	3/21/69	\$3,500	"	\$17,300		3/21/69	
471 KOSCIUSKO ST. ARGO	12/3/69	\$14,000	"	\$21,200	7 1/2%	12/3/69	
84 LEXINGTON AVE. ARGO	8/10/71	\$12,750	EASTERN SERVICE	\$15,950		8/12/71	
326 LIBERTY AVE. ARGO	7/29/71	\$9,000	UISC	\$17,000	7%	7/29/71	
944 LIBERTY AVE. ARGO	5/19/71	\$6,000	"	\$19,500	7%	5/19/71	
946 LIBERTY AVE. ARGO	5/19/71	\$12,000	"	\$19,500	7%	5/19/71	
934 " ARGO	1/19/72	\$10,336.61	"	\$19,500	7%	1/19/72	
314 LOGAN ST. ARGO	10/17/69	\$12,000	"	\$18,700	7 1/2%	10/17/69	
387 LOGAN ST. ARGO	7/7/68	\$13,000	"	\$20,200	7 1/2%	7/11/69	
535 LINWOOD ST. ARGO	6/12/70	\$15,500	"	\$23,200	8 1/2%	6/12/70	

ADDRESS	PURCHASE DATE	PURCHASE PRICE	MORTGAGEE	MORTGAGE AMOUNT	INTEREST	SALE DATE	SALE PRICE
A 117 UNDERHILL AVE	2/26/71	\$11,500	U I S C	\$19,700	8 1/2 %	2/26/71	\$19,700 HIXOX
T 509 E. 45 ST.	11/25/70	\$24,800	"	\$22,550	8 1/2 %	11/25/70	\$22,550 HIXOX
T 553 DEAN ST.	5/22/70	\$15,100	"	\$23,800	8 1/2 %	5/22/70	\$23,500 HIXOX
R 3408 ATLANTIC AVE.	2-6-70			\$17,400	8 1/2 %	2-6-70	\$17,400 HIXOX
R 2411 ALDENHURST RD.	12/22/69	\$9,500	"	\$16,700	7 1/2 %	12/22/69	\$16,700 HIXOX
R 439 BAINBRIDGE ST.	10/8/69	\$13,000	"	\$21,300	7 1/2 %	10/8/69	\$21,200 HIXOX
G 269 E. 31 ST.	7/23/70	\$19,500	"	\$24,200	8 1/2 %	7/23/70	\$24,200 HIXOX
G 351 E. 24 ST.	7/10/70	\$19,500	"	\$25,300	8 1/2 %	7/10/70	\$25,300 HIXOX
G 315 E. 31 ST.	3/12/70	\$19,200	"	\$25,000	8 1/2 %	3/12/70	\$25,000 HIXOX
G 259 E. 34 ST.	11/25/69	\$18,000	"	\$22,100	7 1/2 %	11/25/69	\$22,100 HIXOX
G 443 E. 35 ST.	9/23/69	\$19,000	"	\$25,000	7 1/2 %	9/23/69	\$25,000 HIXOX
G 526 E. 31 ST.	11/4/68	\$16,000	"	\$20,800	6 3/4 %	11/4/68	\$20,800 HIXOX
R 1674 8 th AVE	4/23/70	\$13,000	"	\$18,200	8 1/2 %	4/23/70	\$18,200 HIXOX
G 3518 CORTELYOU RD.	5/15/70	\$19,000	"	\$24,250	8 1/2 %	5/15/70	\$24,250 HIXOX
MORVAL 280 E. 55 ST.	12/9/70	\$18,250	"	\$27,100	8 1/2 %	12/9/70	\$27,100 HIXOX
MORVAL 151 CRAFTON ST.	8/7/68	\$13,500	"	\$18,300	6 3/4 %	8/7/68	\$18,300 HIXOX
MORVAL 135 CRAFTON ST.	6/20/69	\$11,450	"	\$17,200	7 1/2 %	6/20/69	\$17,200 HIXOX
MORVAL 893 GLENMORRIS AVE.	2/21/69	\$11,250	"	\$16,800	7 1/2 %	2/21/69	\$16,500 HIXOX
G 140 14 th ST.	1/8/70	\$13,500	"	\$19,200	8 1/2 %	1/8/70	\$19,200 HIXOX
MORVAL 248 GATES AVE.	7/28/69	\$10,200	"	\$22,200	7 1/2 %	7/28/69	\$22,200 HIXOX
G 265 54 th ST.	10/8/69	\$11,000	"	\$16,700	7 1/2 %	10/8/69	\$16,700 HIXOX
R 3098 FULTON ST.	7/23/70	\$13,500	"	\$20,250	8 1/2 %	7/23/70	\$20,250 HIXOX
G 338 CARROLL ST.	10/29/70	\$10,000	"	\$17,250	8 1/2 %	10/29/70	\$17,250 HIXOX
T 241 SCHENCK AVE.	11/30/70	\$13,100	"	\$20,250	8 1/2 %	11/30/70	\$20,250 HIXOX
T 544 WARREN ST.	11/30/70	\$10,300	"	\$16,300	8 1/2 %	11/30/70	\$16,300 HIXOX
T 1042 HALSEY ST.	12/23/70	\$12,500	"	\$19,750	8 1/2 %	12/23/70	\$19,750 HIXOX
G 57 EUCLID AVE.	3/4/71	\$19,200	"	\$24,000	7 1/2 %	3/4/71	\$24,000 HIXOX
G 482 CLEVELAND ST.	1/18/70			\$16,750		6/5/70	\$16,750 HIXOX
MORVAL 3408 ATLANTIC AVE.	2/6/70	\$10,000	"	\$17,400		2/6/70	\$17,400 HIXOX

ADDRESS	PURCHASE DATE	PURCHASE PRICE	MORTGAGEE	MORTGAGE AMOUNT	INTEREST	SALE DATE	SALE PRICE
A 53 18 TH ST.	6/11/71	\$12,400	UISC	\$16,950	8 7/8 %	6/11/71	APPROX. \$16,950
A 53 DOXHER ST.	9/8/71	\$11,300	"	\$17,500	7 %	9/8/71	APPROX. \$17,500
T 155 E. 35 ST.	3/15/71	\$22,000	"	\$29,600	8 7/8 %	3/15/71	APPROX. \$29,600
T 1234 GATES AVE.	4/21/71	\$10,500	"	\$16,700	7 7/8 %	4/21/71	APPROX. \$16,700
G 1409 HERKIMER ST.	4/22/70	\$21,000	"	\$27,700	8 1/2 %	4/22/70	APPROX. \$27,700
R 358 HENDRIX ST.	10/10/69	\$9,000	"	\$18,200	7 1/2 %	10/10/69	APPROX. \$18,200
R 354 HENDRIX ST.	6/20/69	\$13,750	"	\$20,300	7 1/2 %	6/20/69	APPROX. \$20,300
R 916 HEGEMAN AVE.	1/15/69	\$14,000	"	\$16,800	6 3/4 %	1/15/69	16800
A 1214 GREENE AVE.	8/17/71	\$11,750	"	\$19,500	7 7/8 %	8/17/71	APPROX. \$19,500
A 971 GLENMORE AVE.	7/30/71	\$10,000	"	\$18,900	7 %	7/30/71	APPROX. \$18,900
A 284 " "	8/4/71	\$12,000	"	\$21,000	7 %	8/4/71	APPROX. \$21,000
A 118 COOPER ST.	9/8/71	\$10,500	"	\$18,000	7 7/8 %	9/8/71	APPROX. \$18,000
A 1040 BELMONT AVE.	6/3/71	\$16,000	"	\$29,300	7 7/8 %	6/3/71	APPROX. \$29,300
A 392 CHAUNCEY ST.	9/22/70	\$	"	\$20,000	7 7/8 %	3/24/71	APPROX. \$20,000
T 274 E. 32 ST.	7/29/71	\$20,500	"	\$29,250	7 7/8 %	7/29/71	APPROX. \$29,250
T 343 ESSEX ST.	3/24/71	\$10,500	"	\$19,350	8 1/2 %	3/24/71	APPROX. \$19,350
A 2818 BEVERLY RD.	6/2/71	\$19,414.75	FRGL	\$5,750	7 1/2 %	6/2/71	APPROX. \$27,000
FRGO 905 STONE AVE.	6/15/70	\$17,750	UISC	\$24,300	8 1/2 %	6/15/70	APPROX. \$24,300
T 77 MANJER ST.	11/20/70	\$23,000	UISC	\$16,200	5 1/2 %	11/20/70	APPROX. \$16,200
G 1150 N.Y. AVE.	7/1/70	\$17,750	"	\$24,250	8 1/2 %	7/1/70	APPROX. \$24,250
G 2214 STANUSS ST.	5/27/70	\$18,000	"	\$24,200		5/27/70	APPROX. \$24,200
M 155 CANTON ST.	8/28/68	\$10,900	"	\$16,400	6 3/4 %	8/28/68	APPROX. \$16,400
M 186 CANTON ST.	12/6/68	\$14,250	"	\$20,300	6 3/4 %	12/6/68	APPROX. \$20,300
M 588 GREENE AVE.	6/23/70	\$14,050	"	\$23,750	8 1/2 %	6/23/70	APPROX. \$23,750
G 431 E. 32 ST.	10/15/70	\$18,500	"	\$23,400	8 1/2 %	10/15/70	APPROX. \$23,400
G 414 MILLER AVE.	10/24/70	\$14,500	"	\$20,300	8 1/2 %	10/24/70	APPROX. \$20,300
T 343 E. 51 ST.	11/9/70	\$21,500	"	\$26,000	8 1/2 %	11/9/70	APPROX. \$26,000
T 672 HATSEY ST.	11/9/70	\$14,000	"	\$19,300	8 1/2 %		APPROX. \$19,300

Address	Purchase Date	Purchase Price	Mortgage	Mortgage Amount	Interest	Sale Date	Sale Amount
T 365 WAAREN ST.	10/14/70 5/17/71	22,000	UISC	\$21,600	8 1/2%	3/17/71 5/7/71	APPROX 77,000
283-367 T	10/14/70	"	"	21,000	"	5/7/71	APPROX 21,000
T 78 WILLIAMS AVE.	7/23/70	\$10,250	"	\$17,750	8 1/2%	7/23/70	APPROX \$17,750
G 347 WINTHROP ST.	9/25/70	\$14,500	"	\$21,300	8 1/2%	9/25/70	APPROX \$21,300
T 34 WOODBINE ST.	10/13/71	\$13,000	"	\$18,350	7%	10/13/71	APPROX \$18,350
G 40 WYONA ST.	8/7/69	\$13,000	"	\$17,400	"	8/7/69	\$8,200
G 564 WYONA ST.	11/20/68	\$16,000	"	\$20,400	"	11/20/69	APPROX \$20,400
R 467 ELTON ST.	1/21/70	\$13,500	"	\$17,700	8 1/2%	1/21/70	APPROX \$17,700
R 1682 8 TH AVE.	10/14/69	^{12,000} \$14,500	"	\$15,600	7 1/2%	10/14/69	\$16,150 APPROX
R 30 DEWEETH ST.	4/28/70	\$10,000	"	\$15,700	8 1/2%	4/28/70	APPROX \$15,700
G 1160 DECATUR ST.	9/25/69	\$12,500	"	\$17,200	7 1/2%	9/25/69	APPROX \$17,200
R 278 HATFIELD ST.	9/2/69	\$12,500	"	\$19,700	7 1/2%	9/2/69	APPROX \$19,700
R 813 BRIDGES ST.	11/3/69	\$14,500	"	\$15,200	7 1/2%	11/3/69	APPROX \$15,200
R 32114 " "	6/20/69	\$11,500	"	\$16,700	7 1/2%	6/20/69	APPROX \$16,700
M 145 CLARKSON AVE.	5/24/68	\$9,250	"	\$14,100	6 3/4%	5/24/68	APPROX \$14,100
G 534 CLEVELAND ST.	7/24/68	\$13,000	"	\$19,600	6 3/4%	7/24/68	APPROX \$19,600
M 1321 DEAN ST.	5/14/69	\$12,500	"	\$19,800	"	5/14/69	\$20,250
M 967 DUMONT AVE.	7/19/68	\$14,000	"	\$19,600	"	7/19/69	\$20,700
R 1045 DUMONT AVE.	5/7/69	\$16,250	"	\$23,300	"	5/7/69	\$23,850
R 536 GLENROSE AVE.	12/3/69	\$14,000	"	\$20,700	7 1/2%	12/3/69	APPROX \$20,700
G 149 BERRIMAN ST.	8/19/69	\$12,000	"	"	"	"	"
M 845 BELMONT AVE.	9/28/68	\$11,100	"	"	"	"	"
G 1060 BLAKE AVE.	9/9/68	\$10,000	"	\$20,800	"	9/9/68	APPROX \$20,800
G 1097 " "	8/2/68	\$5,500	LI+I	"	"	"	"
G 795 HENDRIX ST.	3/12/70	\$15,250	UISC	\$21,000	8 1/2%	3/12/70	\$21,800
G 18 PENN ST.	11/5/69	\$15,000	"	\$23,200	7 1/2%	11/5/69	\$23,800
G 85 PENN ST.	7/28/69	\$10,500	"	\$18,700	7 1/2%	7/28/69	\$19,200
G 600 E 32 ND ST.	3/20/69	\$18,000	"	\$21,500	"	3/20/69	APPROX \$21,500
M 1615 HANCOCK ST.	4/28/70	\$13,500	"	\$18,750	8 1/2%	4/28/70	\$19,150

SCHEDULES OF PURCHASE AND SALES OF REAL ESTATE

T—Terra Mar Enterprises, Ltd.

R—Ridgewood Holding Corp.

A—Argo Realty Corp.

G—Gainmore Realty Corp.

M—Morval Realty Corp.

G—Gainmore Realty-Roslyn Corp.

Every effort has been made to supply this information accurately. Errors and incomplete information have resulted due to missing files, insufficient time to prepare, etc.

The above corporations were involved in "joint ventures" with others. Many of the records are or were in their possession.

We are continuing to process these schedules. We will mail corrections and other information as obtained.

A

Station	Time	Lat	Long	Alt	Wind	Temp	Humid	Clouds	Remarks
1022	10:22	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1023	10:23	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1024	10:24	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1025	10:25	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1026	10:26	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1027	10:27	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1028	10:28	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1029	10:29	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1030	10:30	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1031	10:31	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1032	10:32	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1033	10:33	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1034	10:34	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1035	10:35	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1036	10:36	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1037	10:37	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1038	10:38	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1039	10:39	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1040	10:40	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1041	10:41	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1042	10:42	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1043	10:43	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1044	10:44	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1045	10:45	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1046	10:46	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1047	10:47	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1048	10:48	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1049	10:49	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1050	10:50	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1051	10:51	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1052	10:52	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1053	10:53	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1054	10:54	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1055	10:55	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1056	10:56	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1057	10:57	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1058	10:58	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1059	10:59	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500
1060	11:00	15° 15' N	157° 15' W	1500	1500	1500	1500	1500	1500

Locality	Altitude	Area	Vegetation	Soil	Remarks	Notes
173. 17. 24. 16. 16.	10,200	10,200	10,200	10,200	10,200	10,200
174. 17. 24. 16. 16.	10,200	10,200	10,200	10,200	10,200	10,200
175. 17. 24. 16. 16.	10,200	10,200	10,200	10,200	10,200	10,200
176. 17. 24. 16. 16.	10,200	10,200	10,200	10,200	10,200	10,200
177. 17. 24. 16. 16.	10,200	10,200	10,200	10,200	10,200	10,200
178. 17. 24. 16. 16.	10,200	10,200	10,200	10,200	10,200	10,200
179. 17. 24. 16. 16.	10,200	10,200	10,200	10,200	10,200	10,200
180. 17. 24. 16. 16.	10,200	10,200	10,200	10,200	10,200	10,200
181. 17. 24. 16. 16.	10,200	10,200	10,200	10,200	10,200	10,200
182. 17. 24. 16. 16.	10,200	10,200	10,200	10,200	10,200	10,200
183. 17. 24. 16. 16.	10,200	10,200	10,200	10,200	10,200	10,200
184. 17. 24. 16. 16.	10,200	10,200	10,200	10,200	10,200	10,200
185. 17. 24. 16. 16.	10,200	10,200	10,200	10,200	10,200	10,200
186. 17. 24. 16. 16.	10,200	10,200	10,200	10,200	10,200	10,200
187. 17. 24. 16. 16.	10,200	10,200	10,200	10,200	10,200	10,200
188. 17. 24. 16. 16.	10,200	10,200	10,200	10,200	10,200	10,200
189. 17. 24. 16. 16.	10,200	10,200	10,200	10,200	10,200	10,200
190. 17. 24. 16. 16.	10,200	10,200	10,200	10,200	10,200	10,200
191. 17. 24. 16. 16.	10,200	10,200	10,200	10,200	10,200	10,200
192. 17. 24. 16. 16.	10,200	10,200	10,200	10,200	10,200	10,200
193. 17. 24. 16. 16.	10,200	10,200	10,200	10,200	10,200	10,200
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196. 17. 24. 16. 16.	10,200	10,200	10,200	10,200	10,200	10,200
197. 17. 24. 16. 16.	10,200	10,200	10,200	10,200	10,200	10,200
198. 17. 24. 16. 16.	10,200	10,200	10,200	10,200	10,200	10,200
199. 17. 24. 16. 16.	10,200	10,200	10,200	10,200	10,200	10,200
200. 17. 24. 16. 16.	10,200	10,200	10,200	10,200	10,200	10,200

Address	Purchase Date	Bank	Rate	Price	Name of Buyer	Commission	Amount Paid	Amount Received	Surplus	Balance
757 Alameda Ave	7/14/17	U.I.	6 1/2	19,400	Alameda	100	19,500	19,500	100	19,400
757 Alameda Ave	7/14/17	U.I.	6 1/2	19,500	Alameda	100	19,600	19,600	100	19,500
561 Alameda Ave	7/14/17	U.I.	6 1/2	19,600	Alameda	100	19,700	19,700	100	19,600
207 Alameda St	7/14/17	U.I.	6 1/2	19,700	Alameda	100	19,800	19,800	100	19,700
138 Hill St	7/14/17	U.I.	6 1/2	19,800	Alameda	100	19,900	19,900	100	19,800
417 Hill St	7/14/17	U.I.	6 1/2	19,900	Alameda	100	20,000	20,000	100	19,900
552 E 5th St	7/14/17	U.I.	6 1/2	20,000	Alameda	100	20,100	20,100	100	20,000
357 Alameda	7/14/17	U.I.	6 1/2	20,100	Alameda	100	20,200	20,200	100	20,100
314 Alameda	7/14/17	U.I.	6 1/2	20,200	Alameda	100	20,300	20,300	100	20,200
48 Alameda	7/14/17	U.I.	6 1/2	20,300	Alameda	100	20,400	20,400	100	20,300
150 Alameda	7/14/17	U.I.	6 1/2	20,400	Alameda	100	20,500	20,500	100	20,400
253 Alameda	7/14/17	U.I.	6 1/2	20,500	Alameda	100	20,600	20,600	100	20,500
49 Alameda	7/14/17	U.I.	6 1/2	20,600	Alameda	100	20,700	20,700	100	20,600
319 E 4th St	7/14/17	U.I.	6 1/2	20,700	Alameda	100	20,800	20,800	100	20,700
133 Alameda	7/14/17	U.I.	6 1/2	20,800	Alameda	100	20,900	20,900	100	20,800
252 Alameda	7/14/17	U.I.	6 1/2	20,900	Alameda	100	21,000	21,000	100	20,900

[illegible]

Region	Address	Bank	Mortgage	Water	Value	Spikes	Name of Owner	Remarks	Deeds	Notes
A	483 18 th	12400	14500	8 1/2%	6 1/2%	12500	A. J. HARRIS	1000	1000	1000
A	535 20 th St	11300	17500	7 1/2%	3 1/2%	17500	H. GARY	17500	17500	17500
T	1552 3 rd St	20000	27500	7 1/2%	3 1/2%	27500	H. GARY	27500	27500	27500
T	2235 4 th Ave	10500	16000	8 1/2%	4 1/2%	16000	H. GARY	16000	16000	16000
G	1419 9 th Ave	21000	27500	8 1/2%	4 1/2%	27500	H. GARY	27500	27500	27500
R	588 14 th St	9000	15000	7 1/2%	3 1/2%	15000	H. GARY	15000	15000	15000
R	554 14 th St	13500	16000	7 1/2%	3 1/2%	16000	H. GARY	16000	16000	16000
R	811 14 th St	14000	17500	7 1/2%	3 1/2%	17500	H. GARY	17500	17500	17500
A	211 GREEN AVE	11750	15000	7 1/2%	3 1/2%	15000	H. GARY	15000	15000	15000
A	911 GREEN AVE	10000	15000	7 1/2%	3 1/2%	15000	H. GARY	15000	15000	15000
A	235 14 th St	12000	15000	7 1/2%	3 1/2%	15000	H. GARY	15000	15000	15000
A	118 COPPER ST	14000	15000	7 1/2%	3 1/2%	15000	H. GARY	15000	15000	15000
A	100 BELMONT AVE	10500	15000	7 1/2%	3 1/2%	15000	H. GARY	15000	15000	15000
A	300 CHURCH ST	25000	27500	7 1/2%	3 1/2%	27500	H. GARY	27500	27500	27500
T	214 14 th St	14000	15000	7 1/2%	3 1/2%	15000	H. GARY	15000	15000	15000
A	218 14 th St	14000	15000	7 1/2%	3 1/2%	15000	H. GARY	15000	15000	15000
A	905 STONE AVE	17500	20000	8 1/2%	4 1/2%	20000	H. GARY	20000	20000	20000
T	111 MAISON ST	14000	15000	8 1/2%	4 1/2%	15000	H. GARY	15000	15000	15000
G	1150 N. Y. AVE	17500	20000	8 1/2%	4 1/2%	20000	H. GARY	20000	20000	20000
G	2111 STRAIGHT	18000	20000	8 1/2%	4 1/2%	20000	H. GARY	20000	20000	20000
T	155 GREEN AVE	10000	15000	8 1/2%	4 1/2%	15000	H. GARY	15000	15000	15000
A	588 GREEN AVE	14000	15000	8 1/2%	4 1/2%	15000	H. GARY	15000	15000	15000
T	414 11 th Ave	14500	15000	8 1/2%	4 1/2%	15000	H. GARY	15000	15000	15000
T	345 E 51 st St	15000	15000	8 1/2%	4 1/2%	15000	H. GARY	15000	15000	15000
T	1072 BELMONT ST	14000	15000	8 1/2%	4 1/2%	15000	H. GARY	15000	15000	15000

FEDERAL HOUSING PROGRAMS

FRIDAY, MAY 5, 1972

U.S. SENATE,
SUBCOMMITTEE ON ANTITRUST AND MONOPOLY,
COMMITTEE ON THE JUDICIARY,
Washington, D.C.

The Subcommittee on Antitrust and Monopoly convened in room 2228, New Senate Office Building, at 10:30 a.m., the Honorable Phillip A. Hart (chairman of the subcommittee) presiding.

Present: Senator Hart.

Staff present: Howard O'Leary, chief counsel; Jack Blum, assistant counsel; and Peter M. Chumbris, minority counsel.

Senator HART. The committee will be in order. I apologize for being a few minutes late. I was testifying in support of an Interior Department matter at another committee.

Our first witness this morning is Mr. John Morales. Mr. Morales? (Whereupon, Mr. John Morales was sworn by the chairman.)

STATEMENT OF JOHN MORALES, EL SOL REALTY CO.

Senator HART. The record should reflect that Mr. Morales appears this morning pursuant to a subpoena. Since you are appearing here without an attorney, I want to assure you that you are advised of your rights.

You have the right to remain silent. Anything you say can be used against you in other proceedings. You have the right to talk to a lawyer for advice before we ask you any questions, and you may have a lawyer with you during the questioning.

If you desire to answer the questions now without a lawyer present, you would still have the right to stop answering at any time. You also have the right to stop answering at any time until you talk to one.

I think the record should reflect also that should you desire to remain silent or assert your rights, you are assured that this subcommittee will draw no adverse inference from that conduct, nor should anyone else.

Mr. Morales, do you understand your rights?

Mr. MORALES. Yes, I do.

Senator HART. Are you willing to waive your rights and to answer questions at this time?

Mr. MORALES. Yes, I will.

Senator HART. Thank you very much. I will ask that Mr. O'Leary develop for our record these questions.

Mr. O'LEARY. Mr. Morales, it is my understanding that in conjunction with your mother, Celia Carrero, and your brother, you were active in the real estate business in the New York area. Is that correct?

Mr. MORALES. Yes.

Mr. O'LEARY. Give us the approximate dates of when you were in the business.

Mr. MORALES. From 1965 until about 1970.

Mr. O'LEARY. As I understand it, your dealings were mainly in the Puerto Rican community?

Mr. MORALES. Yes, sir.

Mr. O'LEARY. Could you tell us geographically in what areas of New York you did business?

Mr. MORALES. Brownsville and East New York, areas of Brooklyn.

Mr. O'LEARY. I assume that all buyers with whom you were involved had to get FHA-insured mortgages, is that correct?

Mr. MORALES. Yes, sir.

Mr. O'LEARY. I take it that one simply could not get a conventional mortgage?

Mr. MORALES. That is correct.

Mr. O'LEARY. Am I also correct in that in order to get a mortgage, practically speaking, you had to go to a mortgage company? You could not go to a commercial bank or a savings bank, or savings and loan?

Mr. MORALES. Well, there was only one savings and loan bank. That was Greenpoint Savings & Loan. That is the only one that I know of. There could have been others.

Mr. O'LEARY. That is the only one that you were aware of?

Mr. MORALES. Yes, sir.

Mr. O'LEARY. As I understand it, they have pretty high standards with respect to the loans that they would make?

Mr. MORALES. Excuse me?

Mr. O'LEARY. Well, were they more stringent than the mortgage companies?

Mr. MORALES. Well, actually they were slower.

Mr. O'LEARY. The deals would not go through the FHA as fast for Green Point?

Mr. MORALES. I never dealt with Greenpoint, but that is what I was led to believe.

Mr. O'LEARY. All right. Is it your testimony that there were little, if any, mortgages from VA; VA-guaranteed mortgages?

Mr. MORALES. Excuse me?

Mr. O'LEARY. During the time that you were in the business, did you deal mostly with FHA and not VA?

Mr. MORALES. That is correct.

Mr. O'LEARY. Would you tell us why you did not deal with the VA?

Mr. MORALES. Well, there again, they were a lot slower when they were processing, the mortgage processing.

Mr. O'LEARY. Is it my understanding that generally speaking in this area VA appraisals came in a good deal lower than FHA appraisals?

Mr. MORALES. That is correct.

Mr. O'LEARY. Would you tell us a little bit about what you did in the real estate business as opposed to what your mother did, and your brother, David?

Mr. MORALES. Well, I usually attended the contracts and the closings. My brother would attend to appraisals and taking out clients. My mother would work in the office with the secretary or salesman.

Mr. O'LEARY. As I understand it, you bought and sold houses in East New York and Brownsville, those areas, through the medium of three corporations. Is that correct?

Mr. MORALES. That is correct.

Mr. O'LEARY. These were the Hema Corp., that's H-e-m-a; Celar Corp., that's C-e-l-a-r; and Balin, B-a-l-i-n? Is that correct?

Mr. MORALES. That is correct.

Mr. O'LEARY. I take it that you would negotiate prices for which one of these three corporations would purchase a house?

Mr. MORALES. That is correct.

Mr. O'LEARY. During the 5 years that you were in the business, approximately how many houses did these three corporations buy and sell?

Mr. MORALES. I couldn't tell you exactly, but it was over a hundred.

Mr. O'LEARY. Well over a hundred?

Mr. MORALES. Yes, sir.

Mr. O'LEARY. How is it that sellers would come to you?

Mr. MORALES. By soliciting, sending out cards or canvassing door to door, or recommendations.

Mr. O'LEARY. And typically what would these cards that you would send out say?

Mr. MORALES. "Houses Bought—All Cash—in 24 Hours."

Mr. O'LEARY. How would you decide where to send these post-cards?

Mr. MORALES. Well, we kept a real estate register. I guess you are familiar with it. It is a big book that lists all the homeowners in Brooklyn. We kept the dates on the pages where we sent, let's say October. We put down October, and we will continue down the streets, and then we would continue again. It was like a cycle.

Mr. O'LEARY. I assume that people in the business would be current with respect to which neighborhoods were changing racially?

Mr. MORALES. That is correct.

Mr. O'LEARY. In this business, I assume that you were in contact with other real estate people and mortgage company people every day?

Mr. MORALES. Yes.

Mr. O'LEARY. Sellers start to run from a certain neighborhood, and the words spreads pretty fast?

Mr. MORALES. That is correct.

Mr. O'LEARY. I assume also that these things would be discussed at dinners and other events sponsored by local realty boards?

Mr. MORALES. That is correct.

Mr. O'LEARY. Tell us how this would go. Typically, what would the conversations be like?

Mr. MORALES. Well, we would just gather at these social affairs and we would get to talking. You know, this neighborhood is good, or this is no good, or what have you.

Mr. O'LEARY. Well, Mr. Morales, we have heard a lot about block-busting. Did block-busting go on?

Mr. MORALES. Well, sir, there is no such thing as block-busting because you cannot refuse to sell to a minority; so how can I explain block-busting when you can't? I am saying that you cannot refuse to sell to a minority.

If a colored or a Puerto Rican comes in, same as a Jew, you can't say, "Well, I can't sell to you because I would be block-busting." Then you are breaking the law.

Mr. O'LEARY. Is it fair to say there was panic in some of these neighborhoods?

Mr. MORALES. Oh, definitely.

Mr. O'LEARY. Did the real estate people and the mortgage company people encourage this kind of panic?

Mr. MORALES. Well, they would not encourage it out loud, but I imagine that they would. It meant more business for them.

Mr. O'LEARY. What do you consider block-busting to be, Mr. Morales?

Mr. MORALES. Block-busting would be to put a Negro—in the case of New York City or Brooklyn, I am talking about—would be to put a Negro or a Puerto Rican in a completely white neighborhood, or what was considered a white neighborhood.

Mr. O'LEARY. In any event, it is to the interest of both the real estate people and the mortgage company people to have the neighborhoods turn over fast?

Mr. MORALES. I would say so, yes.

Mr. O'LEARY. I assume that the mortgage company people would keep you advised as to what houses in which neighborhoods would meet all the FHA requirements.

Mr. MORALES. Well, it would be mainly at affairs, not really sending out a letter or on a continuous basis. They would also always let out a hint. It's worth while in this neighborhood, or that neighborhood. The same thing as brokers would.

Mr. O'LEARY. Is that how the conversations would go? Can you expand on that a little bit?

Mr. MORALES. Well, they would be at affairs. You would be table-hopping, and all we could talk about would be real estate business because we all had the same interests. Sometimes somebody will tell you: "This neighborhood is good. It's changing. Go in there"; or something like that.

Mr. O'LEARY. All right. Now let us assume that you find a seller in Brownsville or East New York that looks like a pretty good house, a house that you think you ought to be able to sell, or resell, for let's say \$20,000. Let us assume that I am the seller and I want \$13,000. What is the first thing that you do?

Mr. MORALES. Well, the first thing, I try to cut down on the price, your price. If I would get it at what I would consider a reasonable price, I would enter into a contract.

Mr. O'LEARY. In that situation, what would you consider a reasonable price?

Mr. MORALES. Well, the cheapest I can get it, sir.

Mr. O'LEARY. Ten thousand dollars or less?

Mr. MORALES. Ten, less, or—well, if I could get a \$20,000 mortgage, I could even pay the \$13,000, but definitely I would try to get it for less.

Mr. O'LEARY. What would you tell people in order to get the price down?

Mr. MORALES. Excuse me?

Mr. O'LEARY. What would you tell people?

Mr. MORALES. Well, it is what we call haggling.

Mr. O'LEARY. Typically, how would it go? What would you say?

Mr. MORALES. Well, I would use, let's say, Mr. Jones sold next door for only ten, or something like that. Or I would say that I could only obtain a certain amount or mortgage.

Mr. O'LEARY. The *Brooklyn Real Estate Register* that you mentioned earlier, that comes out how often?

Mr. MORALES. The book is changed once a year, but you get supplementary sheets once a month.

Mr. O'LEARY. OK. These supplementary sheets, they tell you what?

Mr. MORALES. What houses were sold and what mortgages, what the mortgages are.

Mr. O'LEARY. All right.

Mr. MORALES. The name of the owner also.

Mr. O'LEARY. I assume that either you or your mother subscribed to this *Real Estate Register*?

Mr. MORALES. Yes; we did.

Mr. O'LEARY. So before you come out to haggle with me, you know what houses in the same neighborhood have recently turned over?

Mr. MORALES. That is correct.

Mr. O'LEARY. Now let us say that we finally agree on a sale price of \$10,000. What kind of a contract would you shoot for then?

Mr. MORALES. I would usually take what we call a conditional contract for the longest period of time, 3 months or 6 months; and, if we enter into contract, then I would submit it for a mortgage.

Mr. O'LEARY. As I understand it, you usually shot for a 6-month contract. Is that right?

Mr. MORALES. If I could, the people, if they go along with it.

Mr. O'LEARY. This contract would be subject to FHA conditional commitment?

Mr. MORALES. That is correct.

Mr. O'LEARY. You would tell the seller that this would be subject to an FHA conditional commitment for what?

Mr. MORALES. Well, if I am buying, I would sell for nine.

Mr. O'LEARY. As I understand it, you also can get a minimum downpayment.

Mr. MORALES. Yes, usually around \$500.

Mr. O'LEARY. Will you tell us why you want to put down as little as possible?

Mr. MORALES. So I can buy more houses. We try to tie up as little as possible in a house.

Mr. O'LEARY. After we enter into a sales contract for \$10,000, what is the next thing that you do?

Mr. MORALES. I would submit it for an FHA appraisal.

Mr. O'LEARY. When you submit it for an FHA appraisal, assuming that you hope to sell it for 20, how much do you put it down for?

Mr. MORALES. Well, I would ask for a ridiculous amount, \$25,000, or something like that.

Mr. O'LEARY. Expecting to get knocked down a little?

Mr. MORALES. To 20.

Mr. O'LEARY. In order to get this conditional commitment from FHA, you would go to a mortgage company?

Mr. MORALES. That is correct.

Mr. O'LEARY. As I understand it, FHA in Brownsville and East New York uses fee appraisers.

Mr. MORALES. That is correct also. But they also use FHA appraisers. They use both.

Mr. O'LEARY. FHA appraisers are on salary from the FHA?

Mr. MORALES. I don't know how that worked. I know the fee appraisers were only per house. They would get paid per each house that they appraised.

Mr. O'LEARY. Do you recall how much the fee appraiser would get for each house?

Mr. MORALES. I think that they would get the full amount, but I am not quite sure—\$35.

Mr. O'LEARY. Originally \$35, and later——

Mr. MORALES. Excuse me?

Mr. O'LEARY. The fee appraiser would get \$35, did you say?

Mr. MORALES. I believe so. I am not sure.

Mr. O'LEARY. All right. Now, in effect this fee appraiser was another real estate dealer or broker?

Mr. MORALES. The fee appraisers? Yes, sir.

Mr. O'LEARY. So this is one of your competitors coming around to appraise your house. Is that correct?

Mr. MORALES. That is correct.

Mr. O'LEARY. Wouldn't he be tempted to ask your seller how much he is getting from you?

Mr. MORALES. Excuse me?

Mr. O'LEARY. The fee appraiser who was also in the real estate business himself, wouldn't he be tempted to ask the seller how much he is paying?

Mr. MORALES. That is correct. Yes, sir.

Mr. O'LEARY. If the spread looks good, wouldn't he go back to his office and send someone else with a higher offer?

Mr. MORALES. That is correct.

Mr. O'LEARY. Do you know of instances where this has happened?

Mr. MORALES. I don't know of any, but I have heard.

Mr. O'LEARY. Well, you know of cases where fee appraisers would ask the seller what the sale price was?

Mr. MORALES. I do.

Mr. O'LEARY. That is not uncommon?

Mr. MORALES. No; it is not uncommon.

Mr. O'LEARY. During the 5 years in the business, you have lost deals, haven't you?

Mr. MORALES. Yes, I have.

Mr. O'LEARY. Is it not fair to say that you suspected that that is what happened?

Mr. MORALES. Well, no. I have lost them in other ways, through attorneys.

Mr. O'LEARY. Tell us how you lose a deal through an attorney.

Mr. MORALES. When the seller would go in to tell his attorney that they were selling, the attorney would turn around and say, "Hold on, I have another broker who will pay you a little more, or they will do just the same for you, but I know him and he will give you a quicker deal," or something.

Mr. O'LEARY. Typically, what would the attorney get out of it?

Mr. MORALES. A finder's fee.

Mr. O'LEARY. Approximately what would that finder's fee be?

Mr. MORALES. About \$500.

Mr. O'LEARY. To actually lose a deal to the seller's attorney this way was not uncommon?

Mr. MORALES. No, it was not.

Mr. O'LEARY. It happened all the time?

Mr. MORALES. Not all the time, but it happened.

Mr. O'LEARY. Mr. Morales, let us go back to the fee appraiser. Since he is in the business, he buys and sells in the same general neighborhood himself, doesn't he?

Mr. MORALES. Usually.

Mr. O'LEARY. You have testified that, if you wanted \$20,000 for the house, you would put in for \$25,000; is that correct?

Mr. MORALES. Yes; it is common practice.

Mr. O'LEARY. OK. Tomorrow he may want \$20,000 on the house next door, right?

Mr. MORALES. Yes.

Mr. O'LEARY. Isn't it likely that all these appraisals are going to come in as high as possible without looking suspicious?

Mr. MORALES. Yes, sir.

Mr. O'LEARY. I mean it is in everybody's interest. Your interest, the fee appraisers' interest, the mortgage companies' interest to have these appraisals coming in high.

Mr. MORALES. That is correct.

Mr. O'LEARY. Let us assume that this FHA conditional commitment comes back in at \$20,000. Would that be an uncommon spread, \$10,000?

Mr. MORALES. Uncommon spread? No, sir; it wouldn't be.

Mr. O'LEARY. What is the largest spread that you ever had in your 5 years of business?

Mr. MORALES. \$12,000 to \$14,000.

Mr. O'LEARY. I take it that it was not uncommon to get that spread periodically?

Mr. MORALES. No.

Mr. O'LEARY. Now, the FHA conditional commitment is subject to some repairs being done ordinarily. Is that correct?

Mr. MORALES. On some homes, yes.

Mr. O'LEARY. Now, isn't it fair to say that the real estate dealer is going to spend the absolute minimum to repair the house and still get the house passed for FHA inspection?

Mr. MORALES. That is correct.

Mr. O'LEARY. He is not going to do anything to cut into that spread unless he has to?

Mr. MORALES. That is correct.

Mr. O'LEARY. Isn't it also true that ordinarily the guy who does the inspections is not from FHA, but from the same mortgage company that you are running the deal for?

Mr. MORALES. That is correct.

Mr. O'LEARY. Specifically, if you are running a deal through United, wasn't it ordinarily Mr. Roider, of United, who made the inspections?

Mr. MORALES. That is correct.

Mr. O'LEARY. After he inspects the house, he goes back and signs a form indicating to the FHA that the needed repairs have been done, is that correct?

Mr. MORALES. That is correct.

Mr. O'LEARY. Now, wasn't it customary in the trade to tip the individual who made the inspections \$25 for each inspection?

Mr. MORALES. Well, it depended. Not usually \$25. It could be \$10, \$5, \$25.

Mr. O'LEARY. Why would the amount vary?

Mr. MORALES. There was no particular reason that I can think of.

Mr. O'LEARY. Well, would it depend upon how much you appreciated the inspector's work with respect to the repairs on the particular house?

Mr. MORALES. Well, I guess you could say that.

Mr. O'LEARY. In other words, if the repairs called for had not been done very well, and the inspector approved the repairs, the dealer appreciated it?

Mr. MORALES. Well, the broker was the one who appreciated it more.

Mr. O'LEARY. The broker appreciated it?

Mr. MORALES. Of course.

Mr. O'LEARY. He would tip?

Mr. MORALES. He would tip, yes.

Mr. O'LEARY. Now, after the repairs are done, if you have got a buyer, you will enter closing, right?

Mr. MORALES. Well, no. Sometimes you could close before the repairs were done because they would hold moneys in escrow, and later on, when you comply, they would release your moneys.

Mr. O'LEARY. OK. My question is where did you ordinarily get your buyers?

Mr. MORALES. My buyers?

Mr. O'LEARY. Right.

Mr. MORALES. Recommendations.

Mr. O'LEARY. From people in the community?

Mr. MORALES. Yes, sir.

Mr. O'LEARY. Other people to whom you sold homes?

Mr. MORALES. Yes, sir.

Mr. O'LEARY. Now, in order for the buyer to get past the FHA, he has got to fill out a credit application.

Mr. MORALES. That is correct.

Mr. O'LEARY. The real estate broker, or would the mortgage company soliciting fill out that form?

Mr. MORALES. Well, when we first started business, the solicitor for the mortgage company. But, later on they taught us, and we would fill out our own forms and send them in, or bring them in to the mortgage company.

Mr. O'LEARY. All right. You say when you started out, I assume it was the solicitor or the salesman from the mortgage company that filled them out. What mortgage company did you first do business with?

Mr. MORALES. United.

Mr. O'LEARY. Who was it that taught you how to fill out the forms.

Mr. MORALES. Well, my mother taught me. [Laughter.]

Mr. O'LEARY. Who taught her, if you know?

Mr. MORALES. Mr. Kiva Berwald or Ira Hellman.

Mr. O'LEARY. Or Ira Hellman?

Mr. MORALES. Yes.

Mr. O'LEARY. Now, after the buyer fills out his application, there are forms sent out to verify his employment and the amount of money that is in the bank. Who sends those out?

Mr. MORALES. The mortgage company.

Mr. O'LEARY. And if you were dealing with United, someone in United would fill out these forms and send them in?

Mr. MORALES. That is correct.

Mr. O'LEARY. Now, you also had to get a check on the buyer from a retail credit bureau.

Mr. MORALES. That is correct.

Mr. O'LEARY. Can you tell us how that worked?

Mr. MORALES. Well, United would send the application to Roy Clark, one of the outfits there, and Roy Clark would in return send a form to the buyer's home, either to call or to fill out the form and send it back in.

Mr. O'LEARY. Now, how much were these worth, Mr. Morales?

Mr. MORALES. Excuse me?

Mr. O'LEARY. What were these retail credit bureau checks worth?

Mr. MORALES. In my opinion, nothing.

Mr. O'LEARY. Can you tell us why?

Mr. MORALES. Because they did not have any personal check on the people. Only what the people would tell me that we would put on the form went to the bank. The bank would send it and return it to Roy Clark, and these people were told by Roy Clark to call him or to send this application. All they had to do was just what they said in the first place, to fill out the form, or call the man and tell him the same thing.

Mr. O'LEARY. When you say "bank," in the language of the street that means mortgage company?

Mr. MORALES. Yes, sir. I mean the mortgage company.

Mr. O'LEARY. Did you ever make this check with the retail credit bureau, or was it always the mortgage company?

Mr. MORALES. The mortgage company.

Mr. O'LEARY. What you are telling us is that if the buyer said that he worked for Yellow Taxi Cab, and he made x number of dollars, the mortgage company would feed that information to the retail credit bureau and they would feed it right back?

Mr. MORALES. Right. They would feed it right back. They would not call the Yellow Taxi Cab Co., or anybody. They would say that he works there as far as they know, because the buyer told them so.

Mr. O'LEARY. They would type that up on a form?

Mr. MORALES. On a form. That is correct.

Mr. O'LEARY. With the name of the credit company, and send it back?

Mr. MORALES. Right.

Mr. O'LEARY. And that would go then to the FHA?

Mr. MORALES. Right.

Mr. O'LEARY. Now what happens if the mortgage company calls you and tells you to check with the bank, and your buyer does not have \$500 in there like he is supposed to? Let us say that he has only got a hundred dollars in the bank. What do you do then?

Mr. MORALES. I would advise my client to go and borrow money and place it in the bank.

Mr. O'LEARY. I take it that in the trade that was not uncommon, right? If for some reason it looked like the deal was going to fall through, the mortgage company would call you, and you would tell your buyer what had to be done?

Mr. MORALES. That is correct.

Mr. O'LEARY. If you did not have a buyer on hand, you might have to go to what is called short money, right?

Mr. MORALES. That is correct.

Mr. O'LEARY. Will you tell us what short money is?

Mr. MORALES. It is money that you borrow temporarily until you close a deal.

Mr. O'LEARY. In other words, you borrow short money in order to buy a house where the possible spread looked pretty good?

Mr. MORALES. That is correct.

Mr. O'LEARY. Now, the big mortgage companies that dealt in Brownsville and East New York—Eastern, United, Inter-Island, Springfield, Dale—they all dealt in short money, is that right?

Mr. MORALES. Not all. Dale, I believe, did not have any short money, and Springfield, it was kind of hard to get it from them also. Once in a while they did, but it was hard. They did not have the access to the money as the larger companies did.

Mr. O'LEARY. The three big ones—Eastern, United, and Inter-Island—all dealt in short money?

Mr. MORALES. Yes, they did.

Mr. O'LEARY. As I understood it, you never dealt with Eastern, but you did deal with both United and Inter-Island?

Mr. MORALES. That is correct.

Mr. O'LEARY. What was the average amount of short-money loan that you took out from the mortgage company?

Mr. MORALES. The average amount would have been around \$10,000.

Mr. O'LEARY. What were the terms on a short-money loan?

Mr. MORALES. You mean the interest?

Mr. O'LEARY. Right.

Mr. MORALES. Well, it started at 1 percent and went up to $1\frac{1}{2}$ to 2 percent a month.

Mr. O'LEARY. So during the latter part of time that you were in business, it was 2 percent a month?

Mr. MORALES. Yes, sir.

Mr. O'LEARY. If you needed short money, how quickly could you get it from the mortgage company?

Mr. MORALES. Within a few days.

Mr. O'LEARY. What is the largest amount of short money that you ever had outstanding?

Mr. MORALES. At one time?

Mr. O'LEARY. Yes, sir.

Mr. MORALES. Maybe \$100,000.

Mr. O'LEARY. Would you buy a house with all short money, or were the terms such that you were supposed to—

Mr. MORALES. No; you would leave your downpayment in there, and sometimes it was necessary for you to add an additional amount.

Mr. O'LEARY. Going back to our example of the house that you bought for \$10,000 and you put \$500 down, some mortgage companies would want you to put more money on the deal, would they not?

Mr. MORALES. Yes; and others, it depended on the deal and the spread.

Mr. O'LEARY. Were there any guidelines there?

Mr. MORALES. No. It was an average. They would give you anywhere from two-thirds to 90 percent of your temporary financing.

Mr. O'LEARY. So they might want you to have another \$2,500 in the deal, enabling you to sell it, or something like that?

Mr. MORALES. Yes.

Mr. O'LEARY. Mr. Morales, are you familiar with the expression, to jet a deal? Jet warehouse?

Mr. MORALES. Excuse me?

Mr. O'LEARY. Jet warehouse?

Mr. MORALES. Not with that expression. I know what jet warehouse was.

Mr. O'LEARY. All right. Jet warehouse was Eastern Short Money Co., was it not?

Mr. MORALES. Yes.

Mr. O'LEARY. When you borrowed short money, you would go through a real estate closing, and the seller in our example would be paid his \$10,000?

Mr. MORALES. That is correct.

Mr. O'LEARY. And take a balance?

Mr. MORALES. That is correct.

Mr. O'LEARY. At this closing you would have to purchase title insurance and fire insurance, and everything else?

Mr. MORALES. That is correct.

Mr. O'LEARY. When you found a buyer and you had a short money loan outstanding, you were expected to run that deal back through the same mortgage company, were you not?

Mr. MORALES. That is correct.

Mr. O'LEARY. Did you ever have a situation where you borrowed short money from one company, and ran the deal through another mortgage company?

Mr. MORALES. Yes, indeed.

Mr. O'LEARY. How many of those did you have?

Mr. MORALES. Very few.

Mr. O'LEARY. Is it fair to say that 99 percent of the time—

Mr. MORALES. I would close with the same people that I borrowed the money from.

Mr. O'LEARY. That is why they lent you the short money, isn't that correct?

Mr. MORALES. Well, I imagine that they expected you to close with them, yes, sir.

Mr. O'LEARY. After you had gotten the buyer in the situation with a short-money loan outstanding, and you go to closing, say, in a deal with United, tell us who would be present at the closing, in addition to yourself and the buyer?

Mr. MORALES. The title closer for the lender, the title men, another attorney and my attorney, plus the buyer's attorney.

Mr. O'LEARY. All right. Let me see if I have got this straight. It would be—let us assume that you are dealing with United. There would be an attorney for United present?

Mr. MORALES. That is correct.

Mr. O'LEARY. That ordinarily would be Mr. Gerald Canavan?

Mr. MORALES. That is correct.

Mr. O'LEARY. There would be an attorney for the title company?

Mr. MORALES. That is correct.

Mr. O'LEARY. And generally when you dealt with United, you dealt with the same title company?

Mr. MORALES. That is correct.

Mr. O'LEARY. Who would be the attorney for the title company?

Mr. MORALES. Mr. Feder.

Mr. O'LEARY. Feder?

Mr. MORALES. Yes.

Mr. O'LEARY. And you would also have your own lawyer, Mr. Hellman, present?

Mr. MORALES. That is correct.

Mr. O'LEARY. There would be an attorney for the buyer?

Mr. MORALES. That is correct.

Mr. O'LEARY. How would the buyer get his attorney?

Mr. MORALES. I usually would recommend an attorney.

Mr. O'LEARY. You would have a buyer; he would not have an attorney, and you would recommend some attorney to him?

Mr. MORALES. That is correct.

Mr. O'LEARY. It was customary in the trade, was it not, for you to tip some of these people at the closing?

Mr. MORALES. That is correct.

Mr. O'LEARY. Let us start with Mr. Canavan, the attorney for United. Was it customary for you to tip him?

Mr. MORALES. Yes.

Mr. O'LEARY. How much?

Mr. MORALES. \$20.

Mr. O'LEARY. And Mr. Feder, the attorney for the title company. Was it customary for you to tip him?

Mr. MORALES. Yes, \$15.

Mr. O'LEARY. I assume that your own lawyer charged you a fee?

Mr. MORALES. Yes.

Mr. O'LEARY. What would that have been?

Mr. MORALES. \$200.

Mr. O'LEARY. The attorney for the buyer, who paid him?

Mr. MORALES. The buyer.

Mr. O'LEARY. Well, in return for—

Mr. MORALES. Sometimes we would pay him also, because on the new program we paid part of the closing costs. That could be part of the closing costs.

Mr. O'LEARY. Who decided what title insurance company would be dealt with?

Mr. MORALES. Usually the broker.

Mr. O'LEARY. When you dealt with United, didn't you always deal with the same title insurance company?

Mr. MORALES. Not always, but usually.

Mr. O'LEARY. Ninety percent of the time?

Mr. MORALES. Yes, sir.

Mr. O'LEARY. Which title company was that?

Mr. MORALES. The Commonwealth Land & Title Insurance Co.

Mr. O'LEARY. Mr. Morales, after the closing would you ordinarily collect the mortgage payments?

Mr. MORALES. After the closing?

Mr. O'LEARY. Yes.

Mr. MORALES. Not ordinarily, but sometimes.

Mr. O'LEARY. Would you tell us a little bit about this, and why you did this?

Mr. MORALES. Well, we dealt mainly with Puerto Ricans. They would come to our office and they would either give us the cash and we would make out a check and mail it in for them, or they would just bring in their payments to us, and we—it was like a service. We would mail it in to the mortgage company.

Mr. O'LEARY. The mortgage company, would they pay you anything for this service?

Mr. MORALES. No, sir.

Mr. O'LEARY. You told us that you dealt with United and Inter-Island. Did they expect you to perform this service?

Mr. MORALES. Well, not United. Inter-Island, when I was dealing with them, they expected it.

Mr. O'LEARY. Who did you deal with at Inter-Island? Mr. Sirote?

Mr. MORALES. Mr. Sirote. That is correct.

Mr. O'LEARY. Did you deal with him personally?

Mr. MORALES. Well, it would depend on what the situation was, because he had his title closer, his attorney, and when it came to the mortgage processing, he had his girls. So it was different people they would deal with.

Mr. O'LEARY. But on the big stuff you dealt with him?

Mr. MORALES. That is right. Points, discount, if I didn't like what they were charging me, I would have to—his attorney would send me up to his office, and I would try to lower the discount on the mortgage.

Mr. O'LEARY. Mr. Morales, when you dealt with Mr. Sirote of Inter-Island, some of your mortgages were delinquent. Would he extract payments from you at the closings of other deals?

Mr. MORALES. Yes, he would.

Mr. O'LEARY. Would you tell us how that worked?

Mr. MORALES. Well, when they were delinquent, I would pay the money to him, and then I would go out and collect the mortgage myself.

Mr. O'LEARY. All right. You have closed a number of deals with Mr. Sirote of Inter-Island, and some of these deals start to become delinquent. You have got another deal that you are closing today. You go to close that deal, and what happens?

Mr. MORALES. He would take out the delinquent payments, and I would go out and collect them from my closer.

Mr. O'LEARY. In other words, the money that you would receive, otherwise receive at your closing, was reduced by——

Mr. MORALES. The payments that I made. That is correct.

Mr. O'LEARY. Whatever was delinquent?

Mr. MORALES. That is correct.

Mr. O'LEARY. Mr. Morales, going back to the closing, ordinarily did the buyer pay the fee to the attorney that you recommended?

Mr. MORALES. Yes.

Mr. O'LEARY. What would that fee be?

Mr. MORALES. It varied from a hundred dollars on up.

Mr. O'LEARY. Depending on how much money the buyer had?

Mr. MORALES. That is correct.

Mr. O'LEARY. In return for recommending the attorney to one of the buyers, what would you get from him?

Mr. MORALES. The attorney?

Mr. O'LEARY. Yes.

Mr. MORALES. I wouldn't get anything.

Mr. O'LEARY. Mr. Morales, do you have a license to sell real estate in New York?

Mr. MORALES. No, I do not.

Mr. O'LEARY. All right.

Mr. BLUM. Are you familiar with the welfare department's programs for relocation, and the programs designed to help welfare people to find a place to live, where they pay the broker monthly commissions?

Mr. MORALES. Yes.

Mr. BLUM. Do you think that the payment of those commissions and the relocation fees in effect helped the panic, when panic would start in a neighborhood, where a dealer, for example, finds some welfare tenants and moves them in, and sort of get things rolling?

Mr. MORALES. Excuse me. Could you rephrase that?

Mr. BLUM. Was it a common practice in the real estate industry to find a house and get a couple of tenants for that house from the welfare department to rent it, and then perhaps watch the rest of the neighbors leave, making houses available to buy?

Mr. MORALES. No; I would not say that was a common practice.

Mr. CHUMBRIS. Mr. Morales, would you speak closer to the microphone, please?

Mr. BLUM. Did that happen?

Mr. MORALES. Not with welfare. I don't think so; because, back when I was in business, the welfare department did not pay commissions.

Mr. BLUM. You left the business before the welfare department started—

Mr. MORALES. No. They were paying at that time, but I am saying that at the earlier part when I was in business—later on, when I left the business, the whole neighborhood was integrated already so it did not matter.

Mr. BLUM. Did you find tenants for the houses you purchased through the welfare department?

Mr. MORALES. That is correct.

Mr. BLUM. Did you or your mother act as agents in getting those tenants and collecting commissions?

Mr. MORALES. My mother would.

Mr. BLUM. And finder's fees as well?

Mr. MORALES. Sometimes. Later on, when my mother—my mother is a broker—she would get fees for renting apartments from the welfare department.

Mr. BLUM. I would like to go back to the question of negotiations for points. You said that, if you had a disagreement over points at Inter-Island, you would go in and talk to Mr. Sirote. Now, how did that work? Didn't you know how many points you were paying at the time of the deal closing?

Mr. MORALES. No; because that would vary. The points varied from day to day. Well, not from day to day, but they did vary.

Mr. BLUM. And I take it that the mortgage company would always try to extract a few extra points out of you at the closing?

Mr. MORALES. No. They had a pretty standard amount. The amount was pretty standard.

Mr. BLUM. Well, if it was pretty standard, why was there a disagreement over it?

Mr. MORALES. They would raise it. I was told that they went by Fannie Mae. Whatever Fannie Mae was buying at, it would go up.

Mr. BLUM. It would be a little more than Fannie Mae was?

Mr. MORALES. Down or up, depending on how much money was in the market.

Mr. BLUM. You would not know that until the day that you actually closed?

Mr. MORALES. No. We were advised how Fannie Mae was going, down or up, but sometimes you were just caught by surprise.

Mr. BLUM. I guess when you were at the closing, and you were told that it would be eight points instead of six, you couldn't exactly take the deal somewhere else because you are all caught up in closing on that day because of the contract.

Mr. MORALES. I have my buyer, my seller, the attorneys, everybody there.

Mr. BLUM. So it becomes pretty difficult for you to negotiate, or for you to leave the situation. You pretty well have to close? He's got you, hasn't he?

Mr. MORALES. Well, you can say that. Yes.

Mr. BLUM. Did the same negotiating process go on at United?

Mr. MORALES. Not so much so. United was pretty well standard.

Mr. BLUM. You did not have as much of an argument over how many points to pay? How much would you be paying in points? How many points were involved?

Mr. MORALES. That varied.

Mr. BLUM. What was the most that you ever paid in points?

Mr. MORALES. Twelve points.

Mr. BLUM. What was the least that you ever paid in points?

Mr. MORALES. I believe around four.

Mr. BLUM. It was never less than four points?

Mr. MORALES. Not to my knowledge. I don't remember.

Mr. BLUM. Did you have to pay any other people at the mortgage company? For example, did you have to give gratuities to people in the processing departments or elsewhere to speed things up?

Mr. MORALES. Yes. I didn't have to, but I would.

Mr. BLUM. Did you find that that helped get things moving through the company pretty well that way?

Mr. MORALES. Of course. Yes, sir.

Mr. BLUM. When you visited the mortgage companies, would you have been able to pick up copies of blank FHA forms, such as verifications for deposit and verifications of employment?

Mr. MORALES. I had access to them, yes.

Mr. BLUM. You had?

Mr. MORALES. I had access. They were out in the open where you could just pick them up and walk out with them.

Mr. BLUM. Mr. Morales, did you ever pay points, to any officials of any of the mortgage companies that you did business with, under the table?

Mr. MORALES. Never under the table, no.

Mr. BLUM. You never paid them points, under the table?

Mr. MORALES. No.

Mr. BLUM. You would——

Mr. MORALES. They would just hand me checks and sign.

Mr. BLUM. You would sign? Did you ever give a check that you signed as a receipt to you, proceeds of the closing, and then give that check which you had endorsed to an official of United?

Mr. MORALES. The checks were—you had a pile of checks. Sometimes I would have to sign; sometimes only the buyer because things changed. I don't know exactly how that worked. My only interest was to get my check.

Mr. BLUM. Let me try that again. We are at a closing, and you are getting a number of checks there which represent the money you have made on the deal. Right?

Mr. MORALES. Right.

Mr. BLUM. Those checks, some of them are made payable to John Morales, right?

Mr. MORALES. That is correct.

Mr. BLUM. Now, did you endorse——

Mr. MORALES. Sometimes checks would be made payable to me, and sometimes they were made payable to the buyer, which they had to endorse. Sometimes the buyer and myself had to endorse the check.

Mr. BLUM. Okay, but I am asking this. At the closing, after you endorsed the checks, did you ever deliver checks that you had endorsed to an official of the mortgage company?

Mr. MORALES. No. The closer would keep all the checks there, whatever was due them.

Mr. BLUM. Did you ever get less than you were supposed to out of a deal?

Mr. MORALES. I couldn't answer you on that.

Mr. BLUM. Didn't you watch that pretty carefully?

Mr. MORALES. Well, I had my attorney there. That is why I didn't check anything. Whatever he gave to me as a check, that is what I accepted. I had faith in him.

Mr. BLUM. Let me go back to the welfare department operating in East New York. What do you think of the way they administered commission and relocation subsidy programs?

Mr. MORALES. I think it is very bad.

Mr. BLUM. Very bad? Why do you say that?

Mr. MORALES. Because a tenant could be living in an apartment for 6 months without paying rent, and the welfare department would just turn around and move them out to another apartment, leaving the homeowner stuck.

Mr. BLUM. Do you think that that meant that a lot of the people——

Mr. MORALES. They couldn't keep up their homes because here they were counting—the FHA takes it as part of the income. When you submit to the FHA for a firm commitment, they accept the rent as part of your income, what the rental would be.

Mr. BLUM. So collecting the rent from the people who lived in those houses was very critical to whether or not the houses were candidates for foreclosure?

Mr. MORALES. Yes, some of the homes.

Mr. BLUM. Mr. Morales, is it not a fact that, in a large number of cases in Brooklyn, these FHA programs were simply a way of a man becoming a landlord; that what you would do is get an FHA mortgage on a house, and then collect rent and make the payments?

Mr. MORALES. No.

Mr. BLUM. You did not know of any of that happening?

Mr. MORALES. No.

Mr. BLUM. Why did you leave the business in New York?

Mr. MORALES. Because of the investigation and all of this. I moved away.

Mr. BLUM. I have no further questions.

Mr. CHUMBRIS. I have no questions.

Senator HART. Mr. Morales, first you said that almost all of the time—

Mr. MORALES. Excuse me?

Senator HART. You said that almost all of the time you closed deals with the mortgage company that had given you the short-money loan. Ninety-nine percent of the time.

Mr. MORALES. That is correct.

Senator HART. Was there any particular reason for the 1 percent where you did not?

Mr. MORALES. Well, if you didn't like what discount they were charging you; if you felt that they were charging you too much, you had your right, they did not hold the files on you because by law, again, they would have to release them. So they would release them. But if they were charging you 12, and another company would charge you 4, you would take it out.

I am saying that usually the points did not vary that much because if they were charging you, let's say 8, and you could take it elsewhere for 7, it did not pay because you would have to pay 1 point, or 1 percent discount, for their servicing, which they already had done.

Senator HART. The description that you give of your experience would suggest that if the people at the mortgage company do not send out for verification, the employment form, and do not verify the bank deposit form, as a matter of practical fact, who is going to know that? Certainly nobody at the FHA, are they?

Mr. MORALES. No.

Senator HART. Were there phony employment forms in use in the Brownsville section during the period that you were in this business?

Mr. MORALES. I would imagine so.

Senator HART. You would imagine it because of what?

Mr. MORALES. I have read—from reading the papers.

Senator HART. You yourself have no personal knowledge?

Mr. MORALES. No.

Senator HART. After 5 years of this, is it fair to say that the system seems to be shot through with fraud from top to bottom?

Mr. MORALES. Excuse me, would you—

Senator HART. It does seem?

Mr. MORALES. No, no. I didn't get the whole question.

Senator HART. You have described your experience, and you lived through it for 5 years. Isn't there fraud in almost every aspect of the operation?

Mr. MORALES. I feel that the biggest one would be the credit reports, because they were not doing what job was required.

Senator HART. I am advised that there is a vote, but I think that Mr. Blum has several more questions, or Mr. Chumbris has.

Mr. CHUMBRIS. Mr. Morales, when did you terminate your work as a real estate broker? How long ago?

Mr. MORALES. A year and a half or 2 years ago.

Mr. CHUMBRIS. You were in it since 1965?

Mr. MORALES. Around there. I could not tell you exactly.

Mr. CHUMBRIS. How lucrative a business was it for you personally?

Mr. MORALES. Very good.

Mr. CHUMBRIS. What are you doing now?

Mr. MORALES. I am living in—well, someplace—and I am buying land. I rent heavy equipment, machinery, bulldozers and loaders, different kinds, and diggers. But I am not in the real estate business in New York.

Mr. CHUMBRIS. Did you personally do any appraisal of your own for others?

Mr. MORALES. I am not a broker or an appraiser.

Mr. CHUMBRIS. You are neither a broker nor an appraiser?

Mr. MORALES. No, sir.

Mr. BLUM. Mr. Morales, which other mortgage companies beside United and Inter-Island did you do business with?

Mr. MORALES. I did business with Springfield, Inter-Island, Hogar.

Mr. BLUM. Did you ever do business with Dale?

Mr. MORALES. No, not that I remember.

Mr. BLUM. How about Spartacus?

Mr. MORALES. No.

Mr. BLUM. Why did you move from one to another?

Mr. MORALES. Well, they had solicitors coming around to solicit business from the brokers. We started giving them one deal, and before you know it, you gave them all your business.

Mr. BLUM. Was there ever a specific event, for example, a quarrel with one or the other of the—

Mr. MORALES. I had one with Inter-Island.

Mr. BLUM. Was that the quarrel that you alluded to before over collecting the payment on the mortgages on the houses that you had sold?

Mr. MORALES. Yes, that is correct.

Mr. BLUM. Did you have any kind of quarrel before you left United?

Mr. MORALES. Not really, because I still speak to them. I am friendly with them.

Mr. BLUM. Did you have any conversations with any officials of United about your testimony here this morning?

Mr. MORALES. No, I did not.

Mr. BLUM. Have you talked to Mr. Bernard Roth about your testimony here this morning?

Mr. MORALES. No, I have not.

Mr. BLUM. I have no further questions.

Mr. O'LEARY. Mr. Morales, isn't it fair to say that, if a mortgage company did not make short money available, that you would not do business?

Mr. MORALES. Yes.

Mr. O'LEARY. There were other mortgage companies that came around and tried to solicit that did not lend short money?

Mr. MORALES. That is correct.

Mr. O'LEARY. So you went where the short money was?

Mr. MORALES. That is right.

Mr. O'LEARY. Thank you.

Senator HART. If there are no further questions, Mr. Morales, thank you very much. Your testimony is forthright, and we appreciate it.

There is a vote, a roll call occurring on the Senate floor. We will take a brief recess. Normally it involves only about 10 minutes.

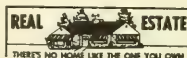
(A short recess was taken.)

Material relating to the testimony of John Morales

EXHIBIT 1

Documents Furnished by Celia Carrero of El-Sol Realty Co.

El-Sol Realty Co.



REAL ESTATE AND MORTGAGES

410 NEW LOTS AVE.
BROOKLYN, N. Y. 11207
EVERGREEN 5-8300-1

*Mrs Celia Carrero
409 New Lots Ave
Brooklyn NY.*

To whom it may concern:

*Hoping this records be satisfactory
I am sorry I can't give you more
information. The Department of Estate
870 Broadway have some of my records*

*Very Truly Yours,
Miss Carrero*

*P.S. I am not the owner of any corporation
my two sons are and they don't live
in New York anymore.*

El-Sol Realty Co.



REAL ESTATE AND MORTGAGES

410 NEW LOTS AVE.
BROOKLYN, N. Y. 11207
EVERGREEN 5-8300-1

1969

464 Sneider

Seller Mayblum
Buyer Erik Discombe

1500 Cash over Mortg

Plus 2 Mortg

Commission \$300 H&L still owes me
Commission

8/10/69

503 Vermont St

Seller Mayblum

Buyer Mr & Mrs Adams. Price 19,200

Mortg Eastern Service Mortg

Commission 950 —

El-Sol Realty Co.



REAL ESTATE AND MORTGAGES

410 NEW LOTS AVE.
BROOKLYN, N. Y. 11207
EVERGREEN 5-8300-1

8/15/69

I closed - 444 ashford st.
595 ashford st.

Seller Mayblum both house and
never got pay. Reason my don't appear
in any contracts

8/29/69

Closing for 491 Pennsylvania Ave
Seller Mayblum
Buyer Mr. & Mrs. Padilla
Mortg co. Eastern Service Corp.
Price 18,400 Commission \$500 -

1971

El-Sol Realty Co.



REAL ESTATE AND MORTGAGES

410 NEW LOTS AVE.
BROOKLYN, N. Y. 11207
EVERGREEN 5-8300-1

This are my Broker's Commission

- July 22 - 71 I closed 90 Schenck Ave
 7 The Sato family with Concord Holding Corp.
 730 Broadway apt. 13B
 2 The Morales family I sold 81 Schenck
 Ave with the Realty I made 750 Commission
 90 Schenck 1500
 3) With Morris Lederman 4101 Church Ave
 Bklyn N.Y. 11203
 799 Linwood Maldonado family I made
 800 Commission
 4) 301 Arlington Ave Pinea family with the
 with the same person I made \$1000 Commission
 I am inclosing to copies for the
 1099 form -

1971

El. Sol Realty Co.



REAL ESTATE AND MORTGAGES

410 NEW LOTS AVE.
BROOKLYN, N. Y. 11207
EVERGREEN 5-8300-1

I rent apts to Depment of
social services thru. I make some
Comissions also. By renting apts in
East New York sections.

10/8/69

closing for 412 Van Sicken Ave
Seller mayblum The Buyer Julius Bankas,
his Malin residing at 757 St Marks Ave Bklyn N.Y.
Price 19,200. Morty Co. Eastern Services Corp.
175 Fulton Ave Henstead N.Y.
Comission 313.43.

10/9/69

closing for 68 Wilham Ave
Seller mayblum for 163-18-163 St Jamaica
Buyer Robert Brown (190 Palmetto St Bklyn
N.Y. morty Co. Eastern Services (175 Fulton Ave
Henstead N.Y. Price 18,200
Comission \$1000 one Thousand dollars

El-Sol Realty Co.



REAL ESTATE AND MORTGAGES

410 NEW LOTS AVE
BROOKLYN, N. Y. 11207
EVERGREEN 5-8300-1

8/17/69

closing for 575 Schenck Ave
Seller Mayblum for 163-18-163 Janine
Ave N.Y.

Purchaser Peter Brown from
72 Alabama Ave Brooklyn N.Y.
Price 17,700. Commission Paid \$950 -
Morty Co. Eastern Service Corp.

11/5/69

261 Mountack Ave
Purchaser Freddy Rodriguez
Seller Mayblum Price 17,200
Morty Co. Eastern Service Corp.
175 Fulton Ave H. instead N.Y.
Commission \$1000

Form 1099—U.S. INFORMATION RETURN FOR CALENDAR YEAR 1971
 (Please keep this copy—Do not attach to your income tax return)

Copy B
For Payee

1 Gross dividends and other distributions on stock		2 Earnings from savings and loan associations, credit unions, etc.		3 Other interest on bank deposits, etc. Do not include column 2 amounts		4 Partnership dividends and certain other distributions by cooperatives		5 Rents and royalties		6 Other fixed or determinable income		7 Commis- sions, prizes, and awards, etc. to employees and foreign items. No Form W-2 items.	
												2250.00	

Type or print taxpayer identifying number →

Celia Carreto
c/o El Sol Realty
409 New Lots Avenue
Brooklyn, N.Y.

Concord Holding Corp.
930 Brooklyn Avenue
Brooklyn, N.Y.

11-2200952

PAID TO If the identifying number is not shown above or is incorrectly shown, please furnish the correct number for this account to the payer. (OVER)

PAID BY

Department of the Treasury—Internal Revenue Service

Form 1099—U.S. INFORMATION RETURN FOR CALENDAR YEAR 1971
 (Please keep this copy—Do not attach to your income tax return)

Copy B
For Payee

1 Gross dividends and other distributions on stock		2 Earnings from savings and loan associations, credit unions, etc.		3 Other interest on bank deposits, etc. Do not include column 2 amounts		4 Partnership dividends and certain other distributions by cooperatives		5 Rents and royalties		6 Other fixed or determinable income		7 Commis- sions, prizes, and awards, etc. to employees and foreign items. No Form W-2 items.	
												\$1800.00	

Type or print taxpayer identifying number →

Celia Cardero
409 New Lots Ave
Brooklyn NY

Morris Lederman 449-48-6243
4101 Church Ave
Brooklyn NY 11203

PAID TO If the identifying number is not shown above or is incorrectly shown, please furnish the correct number for this account to the payer. (OVER)

PAID BY

Department of the Treasury—Internal Revenue Service

STATEMENT OF GERARD CANAVAN, ATTORNEY

Senator HART. The committee will be in order. Our next witness is Mr. Gerard Canavan, and the record should reflect that Mr. Canavan does appear pursuant to a subpoena.

Mr. Canavan?

(Mr. Gerard Canavan was sworn in by the chairman.)

Senator HART. Mr. Canavan, I understand that you are represented by counsel, and that he accompanies you here today. Would you kindly state for the record his name?

Mr. CANAVAN. Mr. Martin Schaum.

Senator HART. Mr. Schaum, do you represent Mr. Canavan?

Mr. SCHAUM. Yes, I do.

Senator HART. I am sure that you have explained to Mr. Canavan his rights. For the record, since you are here under subpoena, let the committee indicate also our understanding of your rights.

You have the right to remain silent, and anything that you say may be used against you in any other proceedings. You have, of course, the right to consult your counsel at any time before answering any questions. If you decide to answer questions now, the right remains for you to stop answering at any time.

If now or later you elect to remain silent, no adverse inference will be drawn from that course of conduct by this subcommittee, nor should anyone else derive such an inference.

Now, do you understand these rights?

Mr. CANAVAN. Yes, sir.

Senator HART. Are you willing to waive them and answer questions today?

Mr. CANAVAN. Yes, sir.

Mr. CHUMBRIS. Mr. Chairman, may we ask that Mr. Canavan spell his counsel's name?

Mr. CANAVAN. S-c-h-a-u-m.

Mr. BLUM. Mr. Canavan, are you an attorney?

Mr. CANAVAN. Yes, I am.

Mr. BLUM. Who is your employer?

Mr. CANAVAN. The firm of Katz, Wittenberg, Levine & Silverman.

Mr. BLUM. That firm represents United and related companies?

Mr. CANAVAN. That is correct.

Mr. BLUM. You have been directed by officials of United to cooperate fully with this committee, is that correct?

Mr. CANAVAN. Yes, I have.

Mr. BLUM. So that in that respect you are appearing here with their consent?

Mr. CANAVAN. Yes, I am.

Mr. BLUM. How long have you worked in the capacity—in that capacity, with the law firm of United?

Mr. CANAVAN. In June, it will be 13 years.

Mr. BLUM. What were your duties?

Mr. CANAVAN. Primarily closing attorney.

Mr. BLUM. Can you tell us who is present at a typical United closing? What does it look like around that closing table?

Mr. CANAVAN. Well, you have a title man, and you have a buyer and a seller, usually two people on each side. Usually you have an attorney for each, and myself.

Mr. BLUM. Are most of the purchasers' attorneys selected for them by the broker-speculator?

Mr. CANAVAN. No, I wouldn't say most of them. Some of them are, but I would not say most of them.

Mr. BLUM. Did you ever refuse to close a deal as a representative of United because you had reason to believe that the deal was fraudulent?

Mr. CANAVAN. Well, there have been a few cases where I discussed with Mr. Roth the quality of the case, and we decided not to close it. There have been a few.

There were also a few that fortunately we had inspected the property shortly before the closing and found the houses vandalized, so we did not close them.

Mr. BLUM. You refused to close on those?

Mr. CANAVAN. Yes, we refused.

Mr. BLUM. Would you say that that was a rare situation?

Mr. CANAVAN. A rare situation, yes.

Mr. BLUM. Were any steps taken at the closing to determine whether the guy who turned up as the buyer really was the person who he was representing to be as he signed his name? Any sort of a precaution?

Mr. CANAVAN. We usually left this up to the notary. It was his function to determine whether or not they were the proper parties. This was normally done by introduction, and then, on our mortgage form, we would ask the attorney to witness the signature.

Mr. BLUM. Let us go through the situation. If the broker is the one who introduces the buyer to his attorney, and then the individual, the attorney introduces the guy to the notary, there is really no independent verification of who that guy is beyond the broker's having said, "This is Joe Blow who is buying the house"?

Mr. CANAVAN. Well, there have been instances where we have questioned them, asked to see a driver's license, and there would be instances where a minor might be present, and we would not be permitted to close with a minor as the mortgage buyer.

Mr. BLUM. Would you routinely ask for some identification, such as a driver's license?

Mr. CANAVAN. Not routinely, no. That was the exception to the rule.

Mr. BLUM. Were closings at United ever delayed because of differences; because the broker-dealer and Mr Roth disagreed on the number of points to be collected?

Mr. CANAVAN. Yes.

Mr. BLUM. Was that a frequent occurrence?

Mr. CANAVAN. Quite frequent.

Mr. BLUM. How would the situation of differences between them arise? Would it be that he wanted more points than the broker thought he should get?

Mr. CANAVAN. Yes.

Mr. BLUM. That was never a settled matter when you went into the closing?

Mr. CANAVAN. I would say about 50 percent of the time our solicitors would give point quotes which we stick to completely. But we would close at market, which we do with most of our customers; we would close at market.

Mr. BLUM. At market? That would be decided on the day the people walked in to make the deal?

Mr. CANAVAN. Right.

Mr. BLUM. What would happen? Would they leave the closing room, the broker and Mr. Roth, and go into his office and discuss it?

Mr. CANAVAN. They would go into Mr. Roth's office and have a rip-roaring battle.

Mr. BLUM. Over how many points they would be required to pay to close the deal?

Mr. CANAVAN. Right.

Mr. BLUM. In that situation, they would then come back and the checks would be drawn once the agreement was reached with the appropriate number of points coming out of the proceeds?

Mr. CANAVAN. Whatever the agreement was between Mr. Roth and the broker.

Mr. BLUM. In a closing, did you ever witness a situation in which the broker received a check, endorsed that check, and then delivered the check to Mr. Roth?

Mr. CANAVAN. Yes.

Mr. BLUM. What was that payment for?

Mr. CANAVAN. I don't know.

Mr. BLUM. But that happened?

Mr. CANAVAN. Yes, it happened.

Mr. BLUM. It happened more than once?

Mr. CANAVAN. Yes.

Mr. BLUM. Would you describe it as being relatively routine?

Mr. CANAVAN. Yes.

Mr. BLUM. Was there any explanation offered to you as to why it happened?

Mr. CANAVAN. No.

Mr. BLUM. Mr. Roth was president of the company, was he not?

Mr. CANAVAN. Yes, he was.

Mr. BLUM. And he was the guy who decided the number of points to be collected, is that correct?

Mr. CANAVAN. Yes, he did. I had a certain amount of discretion, let's put it that way—maybe a half-a-point discretion in the case.

Mr. BLUM. Were there particular brokers who this occurred with more frequently than others—large operators, perhaps, rather than the small ones?

Mr. CANAVAN. No. I would say that we would have more trouble with the smaller ones. He would not be as familiar with the market. He would come in and not know what Fannie Mae's price was.

Mr. BLUM. Well, I am not talking about the negotiations. I am talking about the check that would be endorsed and then go back to Mr. Roth.

Mr. CANAVAN. Well, that could happen on any closing.

Mr. BLUM. That could happen on any closing?

Mr. CANAVAN. Right.

Mr. BLUM. Would that have also included closings that would be done by R. & W. Associates?

Mr. CANAVAN. No.

Mr. BLUM. No?

Mr. CANAVAN. No.

Mr. BLUM. There were no payments of that kind in those closings?

Mr. CANAVAN. No.

Mr. BLUM. Do you recall any of the names of the ones that did pay those checks back?

Mr. CANAVAN. You mean brokers?

Mr. BLUM. Brokers, yes.

Mr. CANAVAN. It is kind of difficult to remember anybody in particular.

Mr. BLUM. Rather than pursue that further, I am sure it will not help us particularly to know, or to press your memory on this at this point, but I just wondered if it ever crossed your mind that this might be some sort of kickback or payoff to Mr. Roth that you knew nothing about? You simply did not know anything about this?

Mr. CANAVAN. Possibly for services rendered.

Mr. BLUM. You wouldn't know what those services were?

Mr. CANAVAN. No. He would work hard on a case, or something like this.

Mr. BLUM. This is just not accounted for in the books and records of United?

Mr. CANAVAN. No.

Mr. BLUM. This was Mr. Roth's side transaction?

Mr. CANAVAN. Yes.

Mr. BLUM. According to records that you have submitted to the subcommittee, you received gratuities at a closing from the broker-dealer as a matter of routine. Is that correct?

Mr. CANAVAN. In less than 50 percent of the cases, yes. I stated that in my statement.

Mr. BLUM. We were informed by one of the earlier witnesses that some brokers did a large volume of business with the company in the course of a year. Would that have meant that a particular broker would have paid you quite a bit of money over the course of a year?

Mr. CANAVAN. Yes.

Mr. BLUM. Did the payment of gratuities ever induce you to overlook a flaw in the closing statement?

Mr. CANAVAN. To my knowledge, I have never closed a bad loan in my life. I certainly would not be induced by a tip.

Mr. BLUM. It is your understanding that the payment of gratuities is customary where there is a closing at a mortgage company?

Mr. CANAVAN. Yes, very common.

Mr. BLUM. Who is responsible—

Mr. SCHAU. Excuse me, Mr. Blum, for further elaboration on the last question.

Mr. BLUM. Of course.

Mr. CANAVAN. This has been a longtime tradition. It goes back before my time even, where gratuities were given out to closing attorneys.

Mr. BLUM. What is the usual pattern of gratuity? The home buyer pays it, or who pays it?

Mr. CANAVAN. No. Usually the real estate operator pays it.

Mr. BLUM. What does that run on the average?

Mr. CANAVAN. It is hard to say. They run anywhere from \$5 to \$25.

Mr. BLUM. Depending on who the guy was, and how generous?

Mr. CANAVAN. How generous he was.

Mr. BLUM. How good the deal was, or how much work was involved in closing?

Mr. CANAVAN. Well, once in a while there would be a more difficult closing, and they would give me a little extra money.

Mr. BLUM. Who bears the responsibility, and I don't recall if I asked this, for the veracity of the closing statement which shows the dispersal of funds?

Mr. CANAVAN. I do.

Mr. BLUM. You do?

Mr. CANAVAN. Yes.

Mr. BLUM. At a typical back-to-back closing, is title usually in fact conveyed to the operator who then reconveys it to the eventual buyer? Or would the closing sheets show Sam Cohen selling his house to Joe Jones, with a lot of money going to the operator? What was the situation?

Mr. CANAVAN. I would say it was more equal. In about 50 percent of the cases, the deal would go directly between the ultimate buyer and the seller.

Mr. BLUM. But it would not have been unusual for the checks in that kind of closing to be personally made payable to the operator?

Mr. CANAVAN. No.

Mr. BLUM. And then he would, perhaps, endorse those checks over as were appropriate to the original owner? Would that be the way it worked?

Mr. CANAVAN. Oh, no.

Mr. BLUM. The check to the original owner, too?

Mr. CANAVAN. Yes.

Mr. BLUM. I see. In the records that you sent to the subcommittee, you indicated that you had an ownership interest in several corporations which traded in real property. Would you identify those for us?

Mr. CANAVAN. There were two. One was West Housing Corp., which is up in Mount Vernon. Also, Elbar Holding Corp., which is an operating-type function.

Mr. BLUM. What was your role in them?

Mr. CANAVAN. Well, when my brother-in-law got out of the Navy as a liberal arts graduate, and he was having difficulty finding a job, I took out a broker's license and I set him up in business. I lent him \$6,000, which I never got back, by the way.

The corporations are now still in existence but are absolutely not doing any business.

Mr. BLUM. How many properties did they trade in at the time that they were in business?

Mr. CANAVAN. I would say, in the 7 years that they were in business, they traded about 35.

Mr. BLUM. Were most of the mortgages on those obtained at United?

Mr. CANAVAN. All of them.

Mr. BLUM. Did United pay you any sort of commission for bringing them in?

Mr. CANAVAN. No, none.

Mr. BLUM. Mr. Canavan, did you ever see the same individual attend a closing as a buyer of more than one closing from the same broker-dealer?

Mr. CANAVAN. Yes.

Mr. BLUM. Do you recall who?

Mr. CANAVAN. I would say that maybe I had seen him four or five times in my 13 years. One of them would be Marian Orenstein, who had bought a house in Borum Hills, sold the house, and moved to Fort Green. She financed both times through us.

Mr. BLUM. That was in the category of regular customer, though?

Mr. CANAVAN. No, no. She was an individual. She didn't even come in through a broker.

Mr. BLUM. An individual whom you knew? She was just coming back?

Mr. CANAVAN. Right.

Mr. BLUM. But you didn't see a situation like this, where an operator would bring the same straw in to closings again and again?

Mr. CANAVAN. No; but for a while there, we made transactions which were called dealer loans. A dealer loan would be where the FHA would approve the loan for the operator in his name and, at that point, we would make the mortgage to him.

It would be a smaller mortgage than would normally be granted by the FHA. He would come back and buy a second. He was entitled to up to four units.

Mr. BLUM. Four houses?

Mr. CANAVAN. Right.

Mr. BLUM. Were many of these loans closed by United?

Mr. CANAVAN. No, very few.

Mr. BLUM. Did Mr. Roth discuss your appearance here with you?

Mr. CANAVAN. No, he did not, other than to advise me to bring counsel.

Mr. BLUM. Did Mr. Roth ask to see the materials that you submitted to us?

Mr. CANAVAN. I don't think he asked to see them. I submitted a copy to the bank. The bank asked me for them. Mr. Roth never asked me.

Mr. BLUM. I have no further questions.

Mr. CHUMBRIS. I have no questions.

Mr. O'LEARY. I don't have anything.

Senator HART. We may or may not be finished, sir.

Mr. BLUM. I have just one final question about title insurance. Were there any different title companies who did business with United?

Mr. CANAVAN. We do business with every licensed title company in the city of New York.

Mr. BLUM. Those were typically selected by who?

Mr. CANAVAN. Normally by the purchaser's attorney, but sometimes by the broker.

Mr. BLUM. Sometimes by the broker and sometimes by the purchaser's attorney?

Mr. CANAVAN. Right.

Mr. BLUM. Were you aware of any sort of gratuity or payment by the title company as a commission or finder's fee, or whatever?

Mr. CANAVAN. They paid a commission.

Mr. BLUM. Who did the commission get paid to?

Mr. CANAVAN. It went to United Institutional.

Mr. BLUM. United Institutional would get the commission?

Mr. CANAVAN. Right.

Mr. BLUM. I have no further questions.

(Exhibit material follows. Testimony resumes on p. 485.)

Material Relating to Gerard F. Canavan

Documents Received Under Subpeona From Gerard F. Canavan, Esq.

CONGRESS OF THE UNITED STATES.

To Mr. Gerard F. Canavan, New York, New York, Greetings.

Pursuant to lawful authority, You Are Hereby Commanded to appear before the Sub-Committee on Antitrust and Monopoly, Committee on the Judiciary of the Senate of the United States, on Thursday, March 23, 1972, at 10 o'clock a.m., at their committee room 203 Senate Annex, Washington, D.C. 20510, and bring with you and produce to the subcommittee the documents described in Attachment A. In lieu of personal appearance, the furnishing of the documents called for in Attachment A to the subcommittee by registered mail on or before March 23, 1972, will be acceptable as compliance herewith.

Hereof fail not, as you will answer your default under the pains and penalties in such cases made and provided.

To the U.S. Marshal or any other authorized person to serve and return.

Given under my hand, by order of the committee, this 6th day of March, in the year of our Lord one thousand nine hundred and seventy-two.

PHILIP A. HART,

Chairman, Subcommittee on Antitrust and Monopoly, Committee on the Judiciary of the Senate of the United States.

ATTACHMENT A

1. For the period January 1, 1967, to January 1, 1972, all books, records and papers relating to the ownership of stock in domestic corporations other than those listed on the New York Stock Exchange or the American Stock Exchange; or in lieu thereof a table showing the number of shares of stock held, the names of the officers, the date or dates on which the stock was purchased, the purchase price, the dividends paid, the date of disposition and the consideration received on disposition.

2. For the period January 1, 1967, to January 1, 1972, all books, records and papers relating to payments, consideration or other benefits received from real estate brokers, real estate dealers, corporations or partnerships which have purchased, sold, made loans on, insured or received commissions from transactions relating to, residential property in New York State; or in lieu thereof for the above described payments, consideration and other benefits, a table showing the date of receipt, the source, the amount or a description of the nature of the consideration or benefit and an estimate of its cash value and the reason for the payment.

3. For the period January 1, 1967, to January 1, 1972, all books, records and papers relating to the purchase or sale of real estate in the State of New York; or in lieu thereof for the above described transactions a table showing the date of purchase, the address of the property, the purchase price, the mortgagee, the amount of the mortgage, the interest rate, the date of sale and the sale price.

4. For the period January 1, 1967, to February 29, 1972, for corporations under your direction or control, for partnerships in which you are a partner, all books, records and papers relating to real estate acquired and disposed of within a period of one year; or in lieu thereof for the above described properties, a table for each corporation showing the name of the corporation, the address of the property, the date of acquisition, the name of the vendor, the purchase price, the name of the mortgagee, if any, the amount of the mortgage and the interest rate, a listing of all payments for personal services relating to the property during the period it was held, the date of disposition and the name of the purchaser.

New York, N. Y., April 4, 1972.

SUBCOMMITTEE ON ANTITRUST AND MONOPOLY,
COMMITTEE ON THE JUDICIARY,
Senate of the United States,
Washington, D.C.

GENTLEMEN: Enclosed please find the documents required in lieu of personal appearance.

The documents were prepared from whatever records are available, and accordingly, represent to my best knowledge and belief an accurate summary of transactions for the periods indicated in Attachment A.

I trust that you will find this report to be in order.

Very truly yours,

GERARD F. CANAVAN.

DOCUMENT REQUESTED OF GERARD F. CANAVAN, RELATIVE TO ATTACHMENT A

1. OWNERSHIP OF STOCK IN DOMESTIC CORPORATIONS

A. DAVID ASBESTOS CORPORATION, BROOKLYN, N.Y.

Officers

Raymond Calamari, President.
 Joseph Calamari, Vice President.
 Henry Calamari, Secretary-Treasurer.

The Corporation was organized about ten years ago, with Gerard F. Canavan obtaining a 10% interest upon his investment of \$5,000.00. The following table indicates Mr. Canavan's distributive share of the net profits of the Company for the last five calendar years, said Company having elected to file as a Small Business Corporation for the purpose of Federal and State Income Taxes.

1967	-----	\$12,462.73
1968	-----	14,320.02
1969	-----	9,500.00
1970	-----	9,400.00
1971	-----	6,800.00

B. AEVAC-AUDIO VISUAL EDUCATIONAL PRODUCTS

Officers

Joseph Berkery, President.
 Gerard F. Canavan, Vice President & Secretary.
 Ira Hellman, Treasurer.

TABLE OF INVESTMENTS IN, AND LOANS MADE TO, THE COMPANY

	Investments		Loans
	Shares	Cost	
1967 purchase	10	\$2,500.00	
1968 purchase	150	25,000.00	
1968 demand loan			\$18,569.67
1969 loan dishonored			¹ (18,569.67)
1970 subchapter 11		² (5,500.00)	
1970 loan			12,500.00
Position	³ 160	22,000.00	12,500.00

¹ Tax loss in 1969.

² 20 percent devaluation. Tax loss in 1970.

³ Position at Dec. 31, 1971 represents 18 percent of the stock of the company.

C. CAPITAL VENTURES CORP., NEW YORK, N.Y.

Officers

Edwin Katz, Chairman.
 Bernard S. Roth, President.

The Corporation was purchased by a number of the employees, of which Gerard F. Canavan was one. The following table represents Mr. Canavan's investment:

	Number of shares	Cost
1967	40	\$4,000.00
Feb. 1, 1969	90	35,000.00
Total	130	39,000.00

In May 1969, the employees-stock owners sold their shares to Arcs Industries, as reported in Schedule 1-D following.

D. ARCS INDUSTRIES (SEE SCHEDULE 1-C)

Officers

Joseph E. Robbins, Chairman.
 Philip S. Sassower, President.
 Arthur C. Stanton, Vice President.

Gerard F. Canavan sold his 130 shares of the stock in Capital Ventures Corp., costing \$39,000.00 for \$122,010.66 in cash and 4,307 shares of Arcs Industries at a stated value of \$5.00 per share. The date of the sale was May 28, 1969.

E. STOCK MARKET TRANSACTIONS

	Acquisitions		Disposals	
	Date	Amount	Date	Amount
500 Canadian S. Pete.....	Apr. 21, 1967	\$1,003.15	June 12, 1967	\$836.23
500 Gulf American.....	Apr. 19, 1967	5,463.75	June 9, 1967	5,143.64
200 Cryplex.....	May 10, 1967	5,238.88	Apr. 19, 1967	5,026.50
100 Lin Broadcast.....	Mar. 25, 1966	850.00	June 21, 1967	1,709.37
Total.....		12,555.78		12,715.74
500 Hico.....	Jan. 17, 1968	1,417.50	July 8, 1968	1,020.00
100 Cryplex.....	June 13, 1966	1,724.00	May 2, 1968	3,657.50
1500 Hico.....	Jan. 17, 1968	4,252.50	Oct. 25, 1968	2,692.50
500 Athry Prod.....	Nov. 25, 1968	4,996.64		
100 Cosmet. Yours.....	Apr. 17, 1968	1,900.00		
100 Cinemation.....	Oct. 3, 1968	3,500.00		
300 Cryplex.....	Apr. 18, 1968	7,017.75		
100 Micro. Syst.....	Sept. 1, 1968	300.00		
200 Listfax.....	May 27, 1968	1,150.00		
500 Pullman Assoc.....	Apr. 18, 1968	2,000.00		
Total.....		28,258.39		7,370.00
500 Athry Prod.....			Feb. 17, 1969	5,452.98
100 Wavecom.....	June 24, 1969	400.00	Nov. 5, 1969	497.87
400 Synchronex.....	Sept. 25, 1969	3,000.00	do.....	4,485.00
1000 Kenrich Corp.....	May 6, 1969	2,707.50	Aug. 25, 1969	1,052.50
100 Cosmet. Yours.....			Feb. 21, 1969	2,468.50
400 Cinemation.....			Nov. 5, 1969	2,990.00
1000 Ntl. Petro.....	Feb. 7, 1969	6,875.00	do.....	4,001.20
250 Comm. Computer.....	Apr. 29, 1969	1,062.50	do.....	1,522.50
300 Cryplex.....			Aug. 25, 1969	3,086.25
300 Molybdenite.....	Feb 13, 1969	2,388.18	do.....	924.34
100 Micro. Syst.....			Nov 5, 1969	81.00
200 Listfax.....			do.....	5,390.00
500 Pullman Assoc.....			Jan. 1, 1969	2,613.10
125 Golden Age.....	Mar. 5, 1969	625.00	Nov. 5, 1969	2,245.31
200 Price/Stern.....	do.....	600.00	do.....	497.50
1200 Recoton Corp.....	Nov. 24, 1969	500.00		
100 Alumina Ferr.....	Oct. 31, 1969	600.00		
Total.....		18,758.18		37,308.05
200 Ceradyne.....	Apr. 10, 1970	250.00		
500 Hi Tech. Ind.....	Sept. 17, 1970	1,050.00		
500 Hi Tech. Ind.....	Mar. 19, 1970	2,500.00		
Total.....		3,800.00		
100 Recoton Corp.....			Dec. 30, 1971	309.50
100 Ceradyne.....			Dec. 23, 1971	142.75
100 Ceradyne.....			Dec. 30, 1971	127.25
1000 Hi Tech. Ind.....			Dec. 23, 1971	898.00
1000 Sundite Corp.....	June 14, 1971	1,017.50		
500 Charter Fund.....	Sept. 17, 1971	6,500.00		
200 Comm. Silver.....	Dec. 16, 1971	2,950.00		
500 Listfax.....	Apr. 1, 1971	2,500.00	Dec. 23, 1971	1,311.25
1000 Arcs Ind.....	Feb. 1, 1971	7,155.00		
Total.....		20,122.50		2,788.75
Total.....		83,494.85		60,182.54

F. WEST HOUSING CORPORATION

Officers

Gerard F. Canavan, President.

George Frates, Vice President and Secretary.

The Company was organized in 1963 for the purpose of conducting business as real estate brokers. Mr. Canavan's investment of \$1,500.00 amounted to a 50% interest in the 200 shares of the Company.

The following figures represent the taxable income (loss) before net operating loss deduction:

1967-----	\$698. 13
1968-----	(3, 512. 50)
1969-----	(1, 240. 65)
1970-----	562. 43

The Company terminated operations at December 31, 1970, and Mr. Canavan has taken a tax loss in the year 1971. Mr. Canavan received no payments from the Company as salary, dividends, etc., during the period under consideration.

G. ELBAR HOLDING CORP. (SEE SCHEDULE 4)

Officers

Gerard F. Canavan, President.

George Frates, Vice President and Secreatry.

The Company was organized in 1964 for the purpose of purchasing and selling real estate. Mr. Canavan's investment of \$1,500.00 amounted to a 50% interest in the 200 shares of the Company.

The following figures represent the taxable income (loss) before net operating loss deduction:

1967-----	(\$2, 942. 32)
1968-----	1, 692. 49
1969-----	3, 201. 61

The Company terminated operations at December 31, 1970, there having been no activity during the year 1970. Mr. Canavan has taken a tax loss in the year 1971. No payments as salary, dividends, etc. were received by Mr. Canavan during the period under consideration.

The Company terminated operations at December 31, 1970, there having been no activity during the year 1970. Mr. Canavan has taken a tax loss in the year 1971. No payments as salary, dividends, etc. were received by Mr. Canavan during the period under consideration.

2. CONSIDERATION FROM BROKERS, DEALERS, ETC.

The following table reflects gratuities received from brokers, dealers, etc. relative to expediting closings:

1967-----	\$5, 200
1968-----	5, 200
1969-----	5, 200
1970-----	5, 200
1971-----	700

The figures represented above reflect an estimate of gratuities received in the years indicated. For the years 1967 through 1970, gratuities averaged about \$100.00 per week. In 1971, Gerard F. Canavan became the director of public relations, hence a decrease in gratuities received.

It is impossible to account for every gratuity, every date, the sources and the amounts. Detailed records of such gratuities were never kept, but the figures shown above are believed to be fairly accurate in the circumstances.

While it is not possible to give every source of the gratuities, the following firms are among those sources offering gratuities through the 5-year period in question:

Mar Deb Corp., Hennior Funding, Parkton Home Sales, R&W Associates, and Terra Mar Realty Corp.

3. PURCHASE OR SALE OF REAL ESTATE IN THE STATE OF NEW YORK

During the period under consideration, there were no purchases or sales of real estate in the State of New York.

4. CORPORATIONS ACQUIRING AND DISPOSING OF REAL ESTATE WITHIN A PERIOD OF 1 YEAR

ELBAR HOLDING CORP. (SEE SCHEDULE 1-G)

Officers

Gerard F. Canavan, President.

George Frates, Vice President and Secretary.

A. 149 South 11th Street, Mount Vernon, N.Y.:

Purchased June 20, 1967-----	\$5, 499. 59
Sold Feb. 21, 1968-----	5, 672. 63

B. 262 South Sixth Street, Mount Vernon, N.Y.:

Purchased July 2, 1968.....	\$2, 287. 60
Sold Oct. 2, 1968.....	5, 072. 01

C. 61 East Second Street, Mount Vernon, N.Y.:

Purchased July 26, 1968.....	\$2, 454. 81
Sold Apr. 23, 1969.....	4, 825. 73

NOTE: The above information was abstracted from the books and records of the Company and represents all pertinent facts available.

UNITED INSTITUTIONAL SERVICING CORP.,
New York, N.Y., April 12, 1972.

SUBCOMMITTEE ON ANTITRUST AND MONOPOLY,
COMMITTEE ON THE JUDICIARY,
Senate of the United States,
Washington, D.C.

GENTLEMEN: Enclosed please find supplementary list of brokers who paid gratuities to myself, as attorney, for the lending institution.

Prima Realty Corp.; Freedom Realty Corp.; Daniel Macklin; Roma Remodeling; 777 Nostrand Avenue Corp.; Chala Funding Corp.; Amity Enterprises; Frank Quintana; Ramon Berrios; Hyman Leroux, Neil Lustig; Berman & Gilman; Mel Katz.

Please be advised that the gratuities came in the form of 5 to 25 dollars in checks and never in excess of that. The great majority of loans averaged about \$10 per closing.

The majority of loans which were closed during the period of time which you are concerned with were without gratuities. Also, please be advised that there were 2 and sometimes 3 other closing attorneys along with myself sharing in the benefits of these gratuities.

I trust this is all the information you desire at this time.

Very truly yours,

GERARD F. CANAVAN.

Senator HART. Gentlemen, thank you very much.

Mr. CANAVAN. Thank you, sir.

STATEMENT OF KIVA BERWALD, SOLICITOR, UNITED INSTITUTIONAL SERVICING CORP.

Senator HART. Our next witness is Mr. Kiva Berwald, and the record again should reflect that Mr. Berwald is appearing today pursuant to subpoena.

Mr. Berwald?

(Mr. Kiva Berwald was sworn in by the chairman.)

Senator HART. Mr. Berwald, I understand that you are represented by counsel, and that he is present at the witness table with you. Would you kindly state his name?

Mr. BERWALD. Martin Schaum.

Senator HART. Mr. Schaum, you do represent Mr. Berwald?

Mr. SCHAUM. Yes, Senator, I do.

Senator HART. Again, although I am sure that Mr. Schaum has consulted with you with respect to your appearance, but since you are here under subpoena, the record should reflect that you have been advised of your rights.

You have the right to refuse to answer any questions you feel tend to incriminate you, and anything that you do say may be used against you in any other proceedings. You have the right to consult with your lawyer at any time before answering any questions, and if you decide to answer questions now, the right continues to stop answering questions at any time.

For the record, I think it should also reflect that should you desire to refuse to answer or assert your rights later, this subcommittee will draw no adverse inference from that course of conduct, nor should anyone else.

Mr. BERWALD, do you understand those rights?

Mr. BERWALD. I do.

Senator HART. Are you willing to waive your rights and to answer the questions?

Mr. BERWALD. Yes, I am.

Senator HART. Thank you very much.

Mr. BLUM. Mr. Berwald, how long have you been employed by United and its predecessor corporations?

Mr. BERWALD. Approximately 15 years.

Mr. BLUM. What were your duties with United when you first started?

Mr. BERWALD. I worked in the servicing department and the accounting department, and I had to spend some time working on delinquents.

Mr. BLUM. And then you became a solicitor for them?

Mr. BERWALD. Yes.

Mr. BLUM. What does a solicitor do for a mortgage company?

Mr. BERWALD. He solicits and visits customers, and he brings applications to the company.

Mr. BLUM. Can you describe historically how you began to build your customers as a solicitor? I take it when you first started there were very few FHA mortgages being made in Brooklyn. You were something of a pioneer in that?

Mr. BERWALD. Yes. At the time that I started, most of the mortgaging was conventional mortgaging involving a first, second, and sometimes a third mortgage. We were pioneers in the FHA business in Brooklyn, in the integrated areas, I would say. Previous to that, I had been covering Flatbush and the better sections of Brooklyn.

Mr. BLUM. Those conventional mortgages, were they ones which had been originated by mortgage companies or by banks?

Mr. BERWALD. At that time by banks.

Mr. BLUM. By banks? And they would originate the firsts, and then the seconds and the thirds were traded around? Is that how it worked?

Mr. BERWALD. That is correct.

Mr. BLUM. And they were traded at fairly steep discounts, is that correct?

Mr. BERWALD. I would say from 30- to 50-percent discount.

Mr. BLUM. For the second? And the thirds were perhaps even deeper?

Mr. BERWALD. The thirds had no value whatsoever. They were using a series of notes.

Mr. BLUM. A series of notes which were then held by the operator?

Mr. BERWALD. Yes.

Mr. BLUM. When you began the FHA business, was that when United was really coming into its own, and you began processing the FHA loans?

Mr. BERWALD. Well, we had been processing many FHA loans. We were only talking about Brooklyn. We came into our own in Brooklyn at that time.

Mr. BLUM. Where were the FHA loans prior to that? Out on Long Island?

Mr. BERWALD. Well, in the better sections of Brooklyn, to some degree, but mostly in Queens, I think.

Mr. BLUM. When would you say that you started processing FHA loans in Brooklyn?

Mr. BERWALD. I would think—now this is an estimate—in 1965.

Mr. BLUM. What happened that kind of opened the doors to that in 1965? Why did it suddenly open up?

Mr. BERWALD. Actually, I don't know. I think it was a field that had just been ignored. The FHA was there. The buildings met the existing criteria.

Mr. BLUM. Nobody had been making loans, and here was an opportunity?

Mr. BERWALD. That is my feeling.

Mr. BLUM. When you first started with FHA business, was it kind of hard for brokers to know how to handle it? Was it something foreign to them?

Mr. BERWALD. It was entirely foreign to most of them.

Mr. BLUM. Was it part of your function as solicitor to pretty much show them how to do the business?

Mr. BERWALD. Yes.

Mr. BLUM. What would you do? Let us say that I just hung out a shingle as a broker.

Mr. SCHAUM. Could we interrupt for just one moment, please?

Mr. BERWALD. I don't want you to think that I am the one that created the FHA mortgage business in Brooklyn. I just happened to be there at the time.

Initially, the brokers would take me out and show me a building to determine whether I felt that it would meet the criteria for FHA acceptance.

Originally I went to contacts to see whether I, in my own opinion, felt that a buyer would qualify. I explained to them the detail work that it required.

Mr. BLUM. The forms?

Mr. BERWALD. Right.

Mr. BLUM. The application forms, and the processes?

Mr. BERWALD. Yes.

Mr. BLUM. How did that business develop? Can you tell us? Did you have to continue doing that much detail, or did you gradually—

Mr. BERWALD. No, because it became self-evident and self-explanatory. The brokers were very quickly competent to handle the detail work themselves.

Mr. BLUM. They gradually began to get familiar with the 2900's and the necessary verifications for the loan?

Mr. BERWALD. Yes.

Mr. BLUM. What arguments would you use to convince the broker to deal with you rather than one of your competitors? Let us say Inter-Island or Eastern.

Mr. BERWALD. I would think a fair price, and a very important factor was that we had ample warehousing closing. At the times of money scarcity, some of the mortgage companies were unable to close

a loan because they could not dispose of it, so there would be a period of lapse.

We would get a firm commitment today, and sometimes it would take 2 or 3 weeks before they could get sufficient funds to close the loan.

Mr. BLUM. United had good warehousing?

Mr. BERWALD. Yes.

Mr. BLUM. Which companies were more strapped at that time?

Mr. BERWALD. Well, I would think most of them, with the exception of Eastern, and Eastern did not get into the picture very definitely until about 4 years ago.

Mr. BLUM. I see. How were you paid by United? Was that salary or commission?

Mr. BERWALD. It was salary and a bonus. We originally tried to work out a commission deal, and it never worked. I got a basic salary, and at the end of the year we would quibble and I would get a bonus.

Mr. BLUM. Was it difficult to figure out whose account was which? Was that the problem with the commission?

Mr. BERWALD. Initially, I was the only salesman in Brooklyn. As time progressed, we took on other salesmen, and there was a conflict because they had worked for other mortgage companies and there was some interrelationship of customers. We had both serviced the same customers.

Mr. BLUM. In other words, you had gone to one real estate guy. They had gone to the same one, and now there was a question of who got credit for which deal?

Mr. BERWALD. Yes.

Mr. BLUM. So you gave up trying to set that up?

Mr. BERWALD. Well, it kind of sorted itself out. Some of them liked me better than the others, so we worked it out among ourselves.

Mr. CHUMBRIS. You just used the word "salesman." Originally, you used the word "solicitor." Is there a difference?

Mr. BERWALD. I don't think there is any difference, just the use of verbiage.

Mr. BLUM. When did you first begin to go into the business of buying houses on your own?

Mr. BERWALD. About 1966, possibly late 1965.

Mr. BLUM. What led you to do it?

Mr. BERWALD. Profit.

Mr. BLUM. You saw an opportunity to make some money and went into it?

Mr. BERWALD. Yes.

Mr. BLUM. What was the nature of the way you operated? What was the nature of the business that you set up?

Mr. BERWALD. I bought in partnership with people who bought me buildings. I supplied the financing, and they supplied the building, and the other help that I needed.

Mr. BLUM. Well, let me see if I can understand how this worked. Somebody might come to you and say, "Mr. Berwald, I found a house here that people want to sell. I can't quite put together the financing I need. I don't want to have to handle this whole thing, so let's go partners in it." You put up some of the financing, they would come in with the buyer, and then you would arrange later to have that building sold off, probably, or possibly through a broker, or possibly some other way.

Mr. BERWALD. They would come in with a seller. Someone else would usually supply the buyer.

Mr. BLUM. Right.

Mr. BERWALD. Basically that is correct.

Mr. BLUM. It was a joint venture between you and whoever walked in as a seller, but not between you and the eventual broker?

Mr. BERWALD. Right.

Mr. CHUMBRIS. Jack, will you yield again? When you are referring to you, are you referring to you personally, or are you referring to United?

Mr. BERWALD. Me personally.

Mr. BLUM. You would then list the houses that you had with these brokers and pay them commissions for the sales? Is that how that worked?

Mr. BERWALD. Correct.

Mr. BLUM. How did you find houses to buy? Was it just that people knew generally if they had a house, and they couldn't handle it, they came to you?

Mr. BERWALD. Well, initially, I bought—brokers in the area who had contact with people who were selling houses. Over the period, we got to know lawyers and other people who referred us business.

In fact, in many cases, people from whom we purchased houses referred us.

Mr. BLUM. And, gradually, it didn't take very much at all? They told you where to go, and they would come down, and they knew that you were established and could make a deal? Is that right?

Mr. BERWALD. Yes.

Mr. BLUM. Can you tell the committee what the Peerless Listing Service is?

Mr. BERWALD. Yes. Take me, for example. I didn't use Peerless. What would happen is a speculator would have a list of 10 or 12 houses. He would supply Peerless with a list of the houses and the addresses, sales price, and description of the building. Peerless would then mimeograph this form and send it to the resale brokers in Brooklyn and Queens, I guess.

Mr. BLUM. Did they also have fliers to attorneys offering them \$500 or \$600 finder's fees?

Mr. BERWALD. Well, some of the speculators incorporated this in their ledgers. They would make you a partner. They would pay you a finder's fee. This is just a part of the overall brochure.

Mr. BLUM. To help attract business?

Mr. BERWALD. Yes.

Mr. BLUM. Was it pretty standard to pay finder's fees of \$500 and \$600 per house?

Mr. BERWALD. Yes.

Mr. BLUM. And lawyers would steer clients of theirs to the operator, and they would collect a finder's fee?

Mr. BERWALD. That was common, yes.

Mr. BLUM. That was common?

Mr. BERWALD. Some of them did it without finder's fees.

Mr. BLUM. Did you have the impression that clients knew that their lawyers were collecting finder's fees?

Mr. BERWALD. I don't really know. In many cases the lawyers made it very evident to the client that they were collecting finder's fees. In some cases they did not.

Mr. BLUM. Would you describe Peerless Listing as a multiple listing service in those areas of Brooklyn?

Mr. BERWALD. No, not in the sense of the word. There is a connotation of control with multiple listing. A certain number of brokers belong to a multiple-listing group. This was more of an advertising business.

Mr. BLUM. He would tell you which houses he had available now?

Mr. BERWALD. Right. It was a regular service. For x dollars, they prepared and mailed to the selling brokers this list.

Mr. BLUM. Some of the Peerless listing sheets that I have seen say things like: "We will buy a house in any condition, one to four family." On the other end of it, they said, "Your buyer has no cash; see us anyway."

Have you seen sheets like that?

Mr. BERWALD. No, I have not.

Mr. BLUM. When you bought houses, did you buy houses that needed repair work, or did you try to avoid that?

Mr. BERWALD. In most cases, we tried to avoid it. In some cases, we bought buildings that were in very bad condition and completely rehabilitated them. It was part of the business.

Mr. BLUM. Why did you try to avoid buildings that needed repair work?

Mr. BERWALD. Normally because repair work is not that easy. It is highly involved, and then you don't know what you are getting into. A broken pipe in the basement might lead to a complete plumbing job. These were old houses, and it was impossible to tell just what repair they might need.

Mr. BLUM. How did you handle the typical contract arrangement with the seller? Did you actually put up cash? How did that contract with the guy who was selling his house to you work?

Mr. BERWALD. We put a downpayment on the building. Our contract provided for a suitable FHA commitment.

Mr. BLUM. What would suitable be?

Mr. BERWALD. I think we tried to get a \$5,000 spread between our ultimate mortgage and our cost.

Mr. BLUM. You felt you needed that spread to make it worth while?

Mr. BERWALD. Yes. We provided for as long a period as possible, a minimum of 90 days in which to take title.

Mr. BLUM. And you tried to get 6 months if you could?

Mr. BERWALD. The more the merrier.

Mr. BLUM. Then you would go out and try to find a broker who would bring you a buyer?

Mr. BERWALD. Yes, sir.

Mr. BLUM. Was there ever any problem about finding a buyer?

Mr. BERWALD. On occasions, yes.

Mr. BLUM. Did brokers seem to have a pretty good supply of customers?

Mr. BERWALD. Yes.

Mr. BLUM. Did you make any of the interim short-money loans?

Mr. BERWALD. No; not many. I made no more than two in a year, and it was not a primary factor in our business.

Mr. BLUM. Why did you avoid it? Was it simply because they were so expensive?

Mr. BERWALD. Not so expensive. It was an unnecessary expense.

Mr. BLUM. You could avoid it by drawing your contract for a longer period?

Mr. BERWALD. In many instances, we had adequate capital to take over the building ourselves, and did.

Mr. BLUM. In that respect I guess you were somewhat more sophisticated than the average guy in the business because you knew how it worked?

Mr. BERWALD. Well, the purpose of my business was to build up a self-sufficient operation, not to milk everything out. On many occasions, we could take title with our own money.

Mr. BLUM. You farmed all of those deals out to other brokers. Were any of them actually partners of yours? How did that work? You said that you let other brokers sell the house.

Mr. BERWALD. Yes.

Mr. BLUM. Were you ever in with the broker who sold the house?

Mr. BERWALD. On occasion, yes; but very rarely.

Mr. BLUM. Was most of the business done through United?

Mr. BERWALD. All of it.

Mr. BLUM. Are you familiar with the firm of R&W Associates?

Mr. BERWALD. Yes; I know the principal.

Mr. BLUM. When did they become very active in the real estate business in Brooklyn?

Mr. BERWALD. Well, I think they had been very active for many years in the mortgage business. I can't give you the date. When United was in the conventional business, they were one of our mortgage brokers. I can't place the year. I would think it was about 1963 or 1964.

Mr. BLUM. 1963 or 1964?

Mr. BERWALD. Right.

Mr. BLUM. Then gradually did they get into the FHA business?

Mr. BERWALD. Yes, they did.

Mr. BLUM. Were they brokers, operators, or what exactly did they do? Do you know?

Mr. BERWALD. I would say that they were mortgage brokers. That is how I would construe it, bringing business in to United.

Mr. BLUM. And they brought business in from a large number of other brokers? Is that correct?

Mr. BERWALD. Yes.

Mr. BLUM. Did you feel that they were competing with you in your sales capacity?

Mr. BERWALD. Very much so.

Mr. BLUM. In effect, here was a brokerage house that was saying, "Come to us to put your deal through United"?

Mr. BERWALD. Yes.

Mr. BLUM. Rather than to United's own salesman?

Mr. BERWALD. Yes. I could not understand the psychology of this except that they were successful.

Mr. BLUM. You have no idea why a broker would choose to go through a middle man to do business with your company, rather than with a representative of the company directly?

Mr. BERWALD. It was great salesmanship.

Mr. BLUM. I presume that it must have cost them something extra to go through another layer of middle men?

Mr. BERWALD. It certainly did.

Mr. BLUM. And you have no possible explanation for why that might have happened?

Mr. BERWALD. I think that they tried to convince the brokers that they were personally handling every detail to get the work done expeditiously.

Mr. BLUM. Did they ever tell brokers, to your knowledge, that they would handle it through FHA rather than using United people?

Mr. BERWALD. Not to my knowledge, but because of the conflict I was never very friendly with them.

Mr. BLUM. You were always on the opposite side of the fence pretty much?

Mr. BERWALD. Yes.

Mr. BLUM. Did you ever have any trouble with appraisals on houses that you were buying; that is, getting a high enough appraisal to get the spread?

Mr. BERWALD. Yes. As a matter of fact, I think about 20 percent of our contracts very much fell by the wayside because we did not get adequate appraisals.

Mr. BLUM. But there were a large number of others where you did?

Mr. BERWALD. Yes.

Mr. BLUM. When a contract fell by the wayside, you never bought the house? You just let it go, right?

Mr. BERWALD. Yes.

Mr. BLUM. Can you tell us a little bit about how the appraisal system worked? How would you know where you might buy a house to get a good appraisal?

Mr. BERWALD. Well, I can tell you where you could buy a good house. The areas were in transition. There was no mystery in that. Our operation was primarily in east New York, Brownsville, and Bedford-Stuyvesant. Anybody could see that this was an area of great flux and transition.

Mr. BLUM. You could tell by looking at the real estate register which blocks had had pretty good appraisal on them, initially?

Mr. BERWALD. Yes.

Mr. BLUM. Were most of the brokers pretty well aware of the comparable system of appraisals the FHA uses?

Mr. BERWALD. I am sure they were. As a matter of fact, most of the mortgage companies had a comparable file.

Mr. BLUM. Would you explain that?

Mr. BERWALD. Yes. Every time an application, an FHA commitment, was issued, the mortgage companies had a card showing the address and the amount of the commitment.

Mr. BLUM. So they would have a very good idea of what they could argue for with FHA in terms of an appraisal?

Mr. BERWALD. Well, I don't know what they would argue about.

Mr. BLUM. Once there was a very high appraisal on the block, would that have a tendency to bring in other high appraisals?

Mr. BERWALD. I would say in general as appraisals increased, and they did over a period of years, certainly it created a spiral and they continued.

Mr. BLUM. Let me be hypothetical here for a moment. Let us assume a possibility that an appraiser was deliberately raising appraisals. Would there be a tendency on the part of others to sort of follow the price that he set?

Mr. BERWALD. Well, I don't know too much about how appraisals work, but I assume that they did because they constantly looked for comparables. I would so assume that if comparables got higher, they would get higher.

Mr. BLUM. In effect it has a pyramiding effect. Once you get a very high appraisal, you start getting other very high appraisals?

Mr. BERWALD. I would say so.

Mr. BLUM. Would that be the way it worked?

Mr. BERWALD. I would think so.

Mr. BLUM. When your deals were being processed at United, would you handle questions that came up? For example, if something was missing on an application, would the United people say, "Mr. Berwald, this is your client and this is missing from the application. Find out about it?"

Mr. BERWALD. For some clients who would not do any work for himself. The average client called the servicing department daily, or whatever it required, and did it himself. I always felt that it was foolish for me to become a middleman. When I would get a question asked of me, I would have to go to the broker, ask him the question, and it would vibrate back and forth.

We encouraged the people to call the processor and ask them what was required.

Mr. BLUM. After a while, it got to be so—pretty much if the broker knew who to call to make sure that things were going along, he would deal directly with the mortgage company people?

Mr. BERWALD. Yes.

Mr. BLUM. Let me go back over this just for a minute. Why would a broker who was buying out there in Brooklyn want to cut you in on one of his deals? What might he get out of it? Why wouldn't he do what Mr. Morales did this morning, take it all himself? Or, as he said he did this morning.

Mr. BERWALD. First of all, many of the brokers started in by being finders, getting \$500 for giving a house to someone who would buy it. They saw a method by doing business with me where they could become a partner.

We did lose some of them because they had enough money to handle it themselves. Many of them just never had the wherewithal to do it.

Mr. BLUM. Were there reports circulating in the real estate business about appraisers who were being paid to come back with favorable appraisal reports?

Mr. BERWALD. Well, we heard rumors about many things.

Mr. BLUM. Was that one of the things?

Mr. BERWALD. Yes.

Mr. BLUM. When one of your customers closed a deal with United, who selected the title insurance company?

Mr. BERWALD. Normally the speculator, buyer selects the title company.

Mr. BLUM. Did the title company offer inducements to the broker to use its services rather than the services of a competing company?

Mr. BERWALD. No.

Mr. BLUM. Did the title company deposit money in banks designated by the mortgage company as a kind of payment for referring business? Do you know of anything like that?

Mr. BERWALD. No.

Mr. BLUM. You wouldn't know if they deposited money as some kind of a compensating balance against a loan?

Mr. BERWALD. I have no idea of what they did. I was never involved in that.

Mr. BLUM. Who selected the attorney representing the buyer usually?

Mr. BERWALD. Usually the retail broker did that.

Mr. BLUM. The retail broker?

Mr. BERWALD. Yes, sir.

Mr. BLUM. Were there particular attorneys that brokers favored?

Mr. BERWALD. Definitely.

Mr. BLUM. So that a particular operator might have a guy who he selected as the attorney for most of his buyers?

Mr. BERWALD. Not the operator. The broker himself.

Mr. BLUM. The broker himself?

Mr. BERWALD. Yes.

Mr. BLUM. And they derived a long-term relationship so that there was a constant referral of business?

Mr. BERWALD. Right.

Mr. BLUM. Who represented you in most of your work?

Mr. BERWALD. Mr. Schaum.

Mr. BLUM. Were there any brokers who were using FHA financing to become landlords; that is selling homes under FHA mortgages to straws operating rental parties? Did you hear about that?

Mr. BERWALD. I heard rumors of that.

Mr. BLUM. Can you tell us who you heard reports of doing that sort of thing? Which brokers?

Mr. BERWALD. No one specifically. It would be very hearsay evidence.

Mr. BLUM. Did you ever meet a man by the name of Morris Wendell?

Mr. BERWALD. I never met Morris Wendell. I knew people that worked for him; I knew of his operation.

Mr. BLUM. What was this operation? Can you give us a brief description of it?

Mr. BERWALD. Mr. Wendell attempted to encourage legitimate businessmen to buy a building in East New York or Brownsville with the understanding that he would rent it and maintain it, and get a high return for their money.

Mr. BLUM. What happened to the deals? Did they work out? Did they fall apart?

Mr. BERWALD. Yes, they did. Mr. Wendell could not continue his guarantee.

Mr. BLUM. Were officials at United aware of your outside real estate interests?

Mr. BERWALD. Yes, they were.

Mr. BLUM. Specifically, was Mr. Katz aware of it?

Mr. BERWALD. Yes, he was.

Mr. BLUM. Was Mr. Roth aware of it?

Mr. BERWALD. Yes. There was no effort made ever to conceal it from the officials of United or from the broker customers.

Mr. BLUM. Until the time of the purchase of United by Empire, was it ever suggested that there might be some sort of conflict of interest in that arrangement?

Mr. BERWALD. No. I don't see any conflict.

Mr. BLUM. You do not see any? Would you mind elaborating on that a little? I know that you feel that you might like to have an opportunity to tell us.

Mr. BERWALD. I feel that conflict connotes some devious thing that did not exist. It was wide-open knowledge to everybody. I do not see why anybody feels that way. I feel that I added some stability to the business.

I do not see where anything was done to hurt anybody by it.

Mr. BLUM. Possibly the conflict that they saw would be that you might have an interest in getting a deal through United, and might push it so that corners would be cut, so that the buyer would be qualified to have the house appraised, and so forth, and you would get your money.

Mr. BERWALD. Anybody could do that, but I think—I know that I did not. It was not my way of doing business.

Mr. BLUM. You are saying it was a potential conflict given the way you operated?

Mr. BERWALD. Yes, but everything is. Every motorcycle cop is in a position to take a bribe, but most of them do not do it.

As a matter of fact, another factor of stability, I think that we had a rather low rate of delinquency. I personally was informed many times of who was delinquent and I went out of my way to try and see if I couldn't get the payments made.

Mr. BLUM. When you started in the business, was one of the brokers who you worked with Celia Carrero?

Mr. BERWALD. Yes.

Mr. BLUM. When were you engaged in business with her?

Mr. BERWALD. I would think about 1965.

Mr. BLUM. 1965. And what was the nature of that business, the same as you described?

Mr. BERWALD. Yes.

Mr. BLUM. For you bought houses together and then you would farm them out for resale?

Mr. BERWALD. Yes.

Mr. BLUM. When did you cease being in business with her?

Mr. BERWALD. I think this lasted about a year.

Mr. BLUM. About a year. Why did you split?

Mr. BERWALD. A difference of opinion on many things.

Mr. BLUM. What were some of the things you had differences of opinion about?

Mr. BERWALD. Personalities. We had a clash.

Mr. BLUM. Just personality conflict? You never got into the kind of business she was bringing in, the way she was doing business?

Mr. BERWALD. No. I think I objected to some shortcuts she took on repairs.

Mr. BLUM. What sort of shortcuts?

Mr. BERWALD. She had very inferior painters. There was patch-work I didn't like.

Mr. BLUM. Was there ever any question about the kind of people who were being qualified in terms of buyers?

Mr. BERWALD. I would say, at that time, no.

Mr. BLUM. Did you ever later hear that there were problems about the kinds of people she was getting qualified as buyers?

Mr. BERWALD. I certainly never understood that.

Mr. BLUM. Were you aware of reports of welfare families coming in the brokerage house and saying, "We're looking for an apartment for rent," and being told, "Oh, you don't have to rent, you can buy?"

Mr. BERWALD. Not welfare tenants, no; in general, people come in looking for apartments and being shifted into purchasing a house.

Mr. BLUM. But not welfare people?

Mr. BERWALD. No.

Mr. BLUM. Do you think those people really understood what they were getting into when they bought a house?

Mr. BERWALD. I certainly do not.

Mr. BLUM. Might there be some who didn't understand they were buying a house?

Mr. BERWALD. I do not know about that. Certainly they were not psychologically attuned to buying a house.

Mr. BLUM. What do you mean by psychologically attuned?

Mr. BERWALD. In my own case, I bought a house. It cost me more than it should have, I am sure. I was not making enough money. We did not go to the movies. We did not drink. We made sacrifices, because our every intention was to buy a house. I think most of these people regarded it more as a rental situation.

Mr. BLUM. They thought of it in terms of making a monthly payment, and if you do not make it, so what? You have not lost anything and, if you leave this place, you will find another one. Is that it?

Mr. BERWALD. I believe so.

Mr. BLUM. And most of these houses were multifamily? They were more than one family; is that right?

Mr. BERWALD. Yes; basically two's, three's, and four's.

Mr. BLUM. People who had that attitude were now becoming the responsible landlords with, say, one, two, or three other tenants. Is that correct?

Mr. BERWALD. Yes.

Mr. BLUM. What do you think—what kind of an effect do you think that had on the neighborhood?

Mr. BERWALD. That, per se, I do not think had any effect. I think what happened, these people were not qualified. They squandered the money or spent it, and did not regard it as a part of their mortgage payment.

Foreclosures resulted. As a result of the foreclosures, we had a lot of boarded-up houses as a result of FHA policy. It resulted in vandalism and everything else.

Mr. BLUM. You were, at one point, a shareholder of United. Is that correct?

Mr. BERWALD. That is correct.

Mr. BLUM. Were you ever a shareholder of Delta?

Mr. BERWALD. No.

Mr. BLUM. Did you ever put money into Delta?

Mr. BERWALD. On one or two occasions, yes.

Mr. BLUM. Did you earn very much out of the Delta loan?

Mr. BERWALD. No.

Mr. SCHAUH (conferring). Will you excuse us for a moment?

Mr. BERWALD. I lent Delta some money to relend.

Mr. BLUM. Delta relent it as a standard interim arrangement?

Mr. BERWALD. Yes; Delta came, from time to time, for money when they required it.

Senator HART. Mr. Chumbris?

Mr. CHUMBRIS. Thank you.

I just want to ask a few questions to clarify in my mind some of the testimony that you have given here today.

When was it that you first joined United?

Mr. BERWALD. Fifteen years ago.

Mr. CHUMBRIS. You started off in the servicing department?

Mr. BERWALD. In doing all kinds of general accounting work.

Mr. CHUMBRIS. Then you became a solicitor for them, a salesman for United?

Mr. BERWALD. Yes.

Mr. CHUMBRIS. What kind of work does that entail?

Mr. BERWALD. Calling upon customers and potential customers and bringing them into United as a customer.

Mr. CHUMBRIS. Is that a full-time job?

Mr. BERWALD. Yes.

Mr. CHUMBRIS. When did you start becoming the broker, or selling houses?

Mr. BERWALD. Approximately 1965.

Mr. CHUMBRIS. For 10 years you worked exclusively in United, working as a solicitor?

Mr. BERWALD. I did many things before becoming a solicitor. I was in charge of delinquent collections for years, credit references and all kinds of things.

Mr. CHUMBRIS. When you started selling houses in 1965, were you the broker at that time?

Mr. BERWALD. No.

Mr. CHUMBRIS. You were a salesman?

Mr. BERWALD. I was neither. I was trading on my own account.

Mr. CHUMBRIS. Did you have any license at all?

Mr. BERWALD. No.

Mr. CHUMBRIS. In the State or city, for that type of work?

Mr. BERWALD. No; it was not required.

Mr. CHUMBRIS. You say you were trading on your own. Were you getting an established commission for the houses that you sold?

Mr. BERWALD. I was purchasing.

Mr. CHUMBRIS. You were buying rather than selling houses?

Mr. BERWALD. Right. I didn't sell houses; I bought them for my own account and I sold them.

Mr. CHUMBRIS. You were in the business of buying and selling. Instead of getting commissions, you were actually hoping to make a profit on what you bought and you can sell the houses.

Mr. BERWALD. Correct.

Mr. CHUMBRIS. At that time you were still working with United?

Mr. BERWALD. Yes.

Mr. CHUMBRIS. Did United complain about you taking time to buy and sell houses?

Mr. BERWALD. Never.

Mr. CHUMBRIS. I believe you stated you served for about 1 year. What was the lady's name you worked for?

Mr. BERWALD. I bought a few buildings with Mrs. Carrero.

Mr. CHUMBRIS. But you were never working for her?

Mr. BERWALD. Never.

Mr. CHUMBRIS. You were just enjoying benching with her on occasions?

Mr. BERWALD. Correct.

Mr. CHUMBRIS. What are you doing today?

Mr. BERWALD. The same thing.

Mr. CHUMBRIS. When you say the same——

Mr. BERWALD. Still engaged in buying and selling houses.

Mr. CHUMBRIS. Still engaged working for United?

Mr. BERWALD. Yes.

Mr. CHUMBRIS. There is no objection to your sharing some of your time in the activity of buying and selling houses?

Mr. BERWALD. First of all, the time is not separated that way, because the same people with whom I buy are also my customers. It is a matter of being a customer a little longer than I normally would.

Mr. CHUMBRIS. I just want to clear the record. Thank you very much.

Senator HART. Mr. Blum?

Mr. BLUM. Mr. Berwald, did you in the course of your showing brokers the ropes, as you described it earlier, ever suggest to them that a particular neighborhood might be a good one, that you were going to open up an office in and begin operation because that was a neighborhood where you could get FHA approval and you could get good deals?

Mr. BERWALD. No.

Mr. BLUM. You didn't have to suggest anything to them, they knew about it?

Mr. BERWALD. Most of them were situated right in the changing areas.

Mr. PLUM. It did not take any brains to figure out where to go?

Mr. BERWALD. You would have to be rather stupid not to figure that out.

Mr. BLUM. Do you recall any conversations about new areas; perhaps, brokers looking for a place that was jumping? Do you recall conversations, perhaps, with brokers who were saying "Gee, this is kind of played down. I would like to find some other area that might open up."

Mr. BERWALD. No; they did not recognize the trend, for instance, to move into east Flatbush. Brokers moved there, one right after the other.

Mr. BLUM. Did you have conversations about the opening up of east Flatbush?

Mr. BERWALD. No.

Mr. BLUM. It certainly would have been in your interest to have new areas open up, in that you would have had a better supply of houses.

Mr. BERWALD. That is correct.

Senator HART. On your activity for and on your own behalf, the buying and selling for your own account, could you give us an estimate, about how many houses you did buy and sell on your own?

Mr. BERWALD. I think this would average about 60 a year with partners. I never bought myself. I was involved in corporations with several partners. I would have had an interest in approximately 60 a year.

Senator HART. Inevitably, by asking the question, I suggest I think it is wrong. I am just curious.

I am assuming that you are not being in violation of the law that you had two shots at the action, but, in fact, it does give you two shots at the action.

Mr. BERWALD. It does. I do not follow the question a hundred percent, either.

Senator HART. My hunch is that you get your profit on the resale of the house.

Mr. BERWALD. Yes.

Senator HART. You are being paid by United, because the financing for your purchases goes through you.

Mr. SCHAU (conferring). Would you excuse us for a moment?

Mr. BERWALD. I would say I did over 400 applications a year.

Senator HART. Only 60 of which—

Mr. BERWALD. Only 60 of which—the 60—many of the 60 wouldn't have been brought in without my effort.

Senator HART. How much mortgage business is there in 60 houses?

Mr. BERWALD. At what face, retail value?

Senator HART. \$20,000 in mortgage, 25 in mortgage.

Mr. BERWALD. I would say about a million dollars.

Senator HART. That is not an insignificant contribution to your value to United, and it represents, I assume, a rather significant direct income profit in your role as owner-vendor?

Mr. BERWALD. Yes.

Senator HART. How many of those houses would you estimate have since gone into foreclosure?

Mr. BERWALD. I have no way of knowing.

Senator HART. Well, we are always cautioned never to believe everything you read in the newspapers. I got the impression that there are hundreds of houses out there now owned by the FHA.

Mr. BERWALD. That's correct.

Senator HART. Do you feel any responsibility at all for that situation?

Mr. BERWALD. Me, personally, no. I feel that the FHA is largely responsible for that.

Senator HART. Didn't you help put people in those houses whom you knew wouldn't make it?

Mr. BERWALD. No, I did not. May I say something?

I saw in the Journal yesterday where I had given kickbacks up to \$68. I don't think I ever gave a kickback. The \$68 amount undoubtedly arose because, at the point of closing, the closer has forgotten to include in his bill some item. The typical was around \$15. The balance was a regular title charge.

Senator HART. Thank you very much.

Our concluding witness today is Mr. Irving Roider.

STATEMENT OF IRVING ROIDER, INSPECTOR, UNITED INSTITUTIONAL SERVICING CORP.

Senator HART. Mr. Roider also appears pursuant to subpoena.

Mr. SCHAU. For the record, I know that, technically, I am not yet on record as representing Mr. Roider, but I don't believe the subpoena was ever served.

Mr. Roider is here on his own, and his own motion.

Senator HART. Thank you for clarifying it, but I think, inasmuch as it has been issued, I have an obligation to say that.

(Whereupon, the witness was duly sworn by the chairman.)

Senator HART. I wasn't sure from Mr. Schaum's comment whether you are represented by counsel.

Mr. ROIDER. I am.

Senator HART. Who is your lawyer?

Mr. ROIDER. Martin Schaum.

Senator HART. Mr. Schaum, do you represent Mr. Roider?

Mr. SCHAU. Yes, I do.

Senator HART. Now, the subpoena having been issued, we are advised there was some failure to service by the marshal. In any event, under those circumstances, I think even though you are accompanied by your counsel, that I should make it clear to you that you do have the right to remain silent.

Anything you say could be used against you in any other proceeding. You have the right, of course, to consult at any time with Mr. Schaum. If you decide to answer questions now, you can stop answering at any time.

The record should also reflect that there should be no adverse inference drawn if now, or before we conclude, you assert your right to silence. You do understand these rights?

Mr. ROIDER. I do.

Senator HART. You are willing to waive your rights and answer questions at this time?

Mr. ROIDER. Yes.

Senator HART. Mr. Blum?

Mr. BLUM. How long have you been employed by United Institutional and its predecessor companies?

Mr. ROIDER. Eleven years.

Mr. BLUM. What were your duties with the company when you first started there?

Mr. ROIDER. As a delinquent—I use the word “chaser”—going after delinquent accounts.

Mr. BLUM. You try to find out what happened to the guy and collect the money for them?

Mr. ROIDER. Try to collect and find out for what reason he is behind.

Mr. BLUM. What duties were you later assigned?

Mr. ROIDER. After that, I did inspections of properties with conventional mortgages on it, and take pictures of various properties, bring it into the office.

Mr. BLUM. Was part of that a matter of inspecting properties on which Delta was going to make interim loans? Did Mr. Roth send you out?

Mr. ROIDER. No. These were conventional mortgages, not Delta.

Mr. BLUM. These were ones where various banks were buying conventional mortgages?

Mr. ROIDER. Yes, at that time.

Mr. SCHAU. Could you specify what those inspections entailed, if anything?

Mr. BLUM. I'm sorry, I don't. Let me back up here. Do you have any background, as an appraiser or inspector?

Mr. ROIDER. No, none whatsoever.

Mr. BLUM. Do you have any training at all in the construction or anything that would help you in the course of trying to inspect or appraise property?

Mr. ROIDER. No, just an average layman looking at a house to see if it was in good condition.

Mr. BLUM. Were you then later assigned by United to the job of inspecting repair work which was done?

Mr. ROIDER. Yes.

Mr. BLUM. This was repair work which would be required pursuant to an FHA conditional commitment, is that correct?

Mr. ROIDER. Right.

Mr. CHUMBRIS. Would the witness please speak up a little bit? I want to make sure the reporter hears you. You are under oath, and we certainly don't want you to be misquoted.

Mr. BLUM. Were you the only person at United who had that responsibility of making repair inspections?

Mr. ROIDER. No, sir. There were salesmen that went out from time to time: Mr. Eichler, Mr. Al Singerman, Lenny Kern.

Mr. BLUM. You were the main guy who did it?

Mr. ROIDER. I did the bulk of the inspections.

Mr. BLUM. When the volume got to be so great, you got the men——

Mr. ROIDER. Or when I fell behind; I just couldn't cover every house.

Mr. BLUM. The records you furnished the subcommittee indicated you received gratuities from brokers who did business with United and whose properties you inspected. Did you take gratuities in exchange for favorable inspection reports?

Mr. ROIDER. For favorable? No, I took gratuities for going out of my way for them, to go back a couple of times being I couldn't get into their house and meeting them at their properties because of nonaccess at the time.

Mr. BLUM. I think it will be helpful if you explained why there was so much extra involved in this that warranted the payment of gratuity. What were the problems you faced as the guy inspecting houses out there in Brooklyn?

Mr. ROIDER. Well, a number of times you never find the people home. I had to go back a number of times. I would try not to inspect the property on a given day. I would hold it off for 2 or 3 days to get back in that particular area. By that time, the broker would be calling the office, the work is done, how come nobody has inspected the property. And that would go on and on and on.

Mr. BLUM. As long as the inspection is delayed, the broker loses money because he has got money tied up in escrow.

Mr. ROIDER. He doesn't lose money. He just has money tied up in escrow.

Mr. BLUM. A deal could fall through, too, if it depends on the work actually being done.

Mr. ROIDER. No, I wouldn't say that for the simple reason, a lot of this work—well, a lot of the conditions—a lot of these cases were closed. There were many in escrow.

Mr. BLUM. The money was held in escrow to be sure the repair work would be done?

Mr. ROIDER. So the repair work would be done.

Mr. BLUM. So you weren't assigned the escrow money—so you were signing a report for the escrow money to be released?

Mr. ROIDER. In due time, yes.

Mr. BLUM. Why were a number of buyers of homes subject to FHA mortgages on which there were conditional commitments requiring repairs and whose FHA mortgages came to United, complaining bitterly that the repairs were never done or were not done properly? If you did a proper inspection job, how was that possible?

Mr. ROIDER. Well, again, it might have been done not satisfactorily to these people. When we talk about work, something tangible like putting in a sink or a bolt, that had to be done. When you talk about painting or plumbing jobs, the repairs were done at that time. It may be broke later on or it had other problems.

Mr. BLUM. Did you ever find situations where there were a very limited number of repairs required on conditional commitment, there were quite a number of other things wrong with the house?

Mr. ROIDER. Yes, a number of times.

Mr. BLUM. Your job was only to see that the work required on the conditional was done, not that the house was in good shape?

Mr. ROIDER. I didn't hear the last part.

Mr. BLUM. Not that the house was in good shape?

Mr. ROIDER. That's true. What I wanted to add, when people complained bitterly, I advised them to go to their broker that sold them the house and please tell them what the story is, being they found these conditions where there was an oversight by the FHA inspector at the time he appraised the house.

Mr. BLUM. Then what would happen? I take it the broker would say, "Here is a signed report that says that the house has been inspected, and it's all right?"

Mr. ROIDER. Sure, but someone would try to go back and try to amend their complaint.

Mr. BLUM. Were some of the houses which you inspected for brokers in worse condition than other houses? Were there some brokers who were pretty bad about making repairs?

Mr. ROIDER. Well, I wouldn't say they were bad, just that they didn't use good mechanics on their repair work.

Mr. BLUM. What did you think of the inspection job done by FHA? Did you think that many of the houses were just—all that was asked by FHA was a cosmetic touchup? Is that the way you would characterize them?

Mr. ROIDER. I wouldn't say that. I would say they messed up on a lot of things. They wanted to be thorough. There were window frames that they didn't see that were not just right.

Mr. BLUM. Were you ever asked to inspect the building, go out there and then discover no work at all had been done?

Mr. ROIDER. Yes.

Mr. BLUM. How might that have happened?

Mr. ROIDER. Well, the broker relied upon his contactor to do the work. The contractor would go back and tell him it was done. Therefore, he would ask for an inspection. We would go out there and see that nothing was done or something was done, very little.

Mr. BLUM. Did you, in addition to your duties as inspector, collect rent for United?

Mr. ROIDER. On occasions, yes.

Mr. BLUM. What would you have been collecting rent for, what buildings were those?

Mr. ROIDER. These were buildings where the FHA—we had FHA mortgages on them. They were sold mortgages where civic-minded groups in the area would—let's get back. These were not unoccupied where we collected rents. We went there to dun for payments and there was nobody there. The civic groups would get in touch with our organization and ask us to supply heat for the building, other services, whatever was necessary. In order to get any kind of money to do this work, they would tell me to come back and collect rents, and give them the service.

Mr. BLUM. Who was the owner of the building?

Mr. ROIDER. We had a name of an owner. He just abandoned the house. He just didn't live there, and there was no way of contacting him, and this was already a house that was in foreclosure.

Mr. BLUM. Did you collect—in addition to the rent you collected for United, did you collect rent for other landlords?

Mr. ROIDER. Yes.

Mr. BLUM. How did you get into the business of collecting it for people other than United?

Mr. ROIDER. Word got around that I was a collector, to begin with. They asked me would I collect rent for them on the various properties.

Mr. BLUM. Who did you collect rent for?

Mr. ROIDER. For R&W Associates, for Mr. Berwald on a couple of pieces of properties, one or two brokers here and there that asked me. They gave me a list of HUD homes to go there and see if I could get the rent for it.

Mr. BLUM. They would give you a list and you would go there, and the assumption was that they owned the house?

Mr. ROIDER. Yes.

Mr. BLUM. Did you ever arrive at one of these places only to be told that somebody had been there before you and collected the rent?

Mr. ROIDER. Not through those brokers we're talking—we are going back now where United was involved, where there were mortgages? Yes.

Mr. BLUM. What would happen, you would go to the house and say, "Give me the rent," and they would say, "Where's the receipt?"

Mr. ROIDER. No. I would go there, introduce myself, "I'm from United." We are here to help them out. Providing they pay us the rent, we will supply heat and whatever necessary repairs.

They said, "We're paying it to somebody." I'd say, "Fine, show me a receipt so that we can try to trace down the people that are collecting the rents." There would be various names, common names, Jones or Williams, on it.

I asked these people to describe these people to me or what company they are from, or brokerage house. They had no knowledge of it.

Mr. BLUM. They had no knowledge. So somebody was there collecting rent, but the people that were paying were people that didn't know and had no ownership interest in the house?

Mr. ROIDER. Right.

Mr. BLUM. Nobody has been able to track down who has been doing the rent collection?

Mr. ROIDER. Once I got into the picture, that I represented United, they would stop paying their rent to this individual, or they would move out completely, and then we would have an abandoned house.

Mr. BLUM. Why would they move out?

Mr. ROIDER. Because of the lack of service. Whoever they were paying to wasn't giving them anything in reality, just promises. They got so disgusted, they couldn't even believe me when I'd tell them that we would give them heat.

Mr. BLUM. It must be pretty confusing for a family living in a house in East New York, and a guy knocking on the door on the first of the month, saying, "Pay me the rent," get a receipt, have another guy knock on the door on the third of the month, saying, "Pay me the rent," and they say, "No." And the first guy really didn't have the right to collect it.

Mr. ROIDER. True.

Mr. BLUM. I imagine those families hardly have the money to go around and shell out another month's rent.

Mr. ROIDER. Of course. I would say 90 percent of those people were on welfare, and they paid, I believe, out of welfare checks, or to cash them and pay the individual the rents.

Mr. BLUM. Naturally enough, if you couldn't get the rent, United couldn't turn on the services in the building.

Mr. ROIDER. In some instances, we were forced to—if the people stayed, we were forced to give them heat and try to convince them: "Look, we're doing the best we can for you. The least you could do is pay us something."

But, of course, we ran into the building department there where they would put violations on the house, or rent control would get in, where they were paying maybe \$80 or \$90 or \$100 a month and they would cut it down to \$40 or \$50 a month.

Mr. BLUM. Can you describe for the subcommittee the conditions you found when you go out on these rent-collecting expeditions, what it's like in one of those buildings?

Mr. ROIDER. It was a disaster, just run down.

Mr. BLUM. What kind of condition is the family living in? Is their water on?

Mr. ROIDER. In some instances where we boarded up a house where these people just opened up the doors, moved in, no water, no electricity, and if there wasn't electricity, they would tap in from somewhere else.

Mr. BLUM. They would run their own line around the meter?

Mr. ROIDER. Meters, or do something, but definitely no water and no facility whatsoever for bathing or washing.

Mr. BLUM. No toilet facilities at all?

Mr. ROIDER. That's right.

Mr. BLUM. Somebody in some of those circumstances might have been trying to collect rent from them?

Mr. ROIDER. Yes, but almost impossible to get it.

Mr. BLUM. Did you ever inquire, when you went out on the rent collection, whether or not the guy who sent you was the legal owner of the building or did you just assume that they owned the building?

Would R&W, for example, say, "Go collect the rent?" You never asked "Do you guys really own that building?" did you?

Mr. ROIDER. No; I did not. R&W—I wouldn't think any real estate broker would send an individual over to collect rents not knowing that he doesn't own the building. Of course, they could always call back. There were a lot of instances where there were skeptical tenants and they wanted to verify it, and I told them, fine.

Mr. BLUM. Can you tell us something about the activities of Mr. Corey at United? What were his duties?

Mr. ROIDER. To the best of my knowledge, Mr. Corey was employed as head of the collection department of our company, and he had a staff of men working under him that were out in the field doing—collecting rents out of various properties, from what I understand, and also dunning people for nonpayments.

That's to the best of my knowledge.

Mr. BLUM. And they would go out, and they would attempt to collect payments, and that was his job?

Mr. ROIDER. Yes.

Mr. BLUM. We had testimony from Mr. Katz that Mr. Corey wasn't much good at it. Payments weren't collected in many houses and went into foreclosure, and there were high arrearage rates.

Mr. ROIDER. That's what I heard, too.

Mr. BLUM. Is it your impression that somewhere along the line, Mr. Corey's people would knock on the door and say, "Pay us rent instead of making the mortgage payments?" Is that possible?

Mr. ROIDER. That is what the talk is, but if that is what happened, I don't know.

Mr. BLUM. But you don't know that for a fact?

Mr. ROIDER. I don't know.

Mr. BLUM. You heard that?

Mr. ROIDER. I heard that; yes.

Mr. BLUM. When you collected rent, what did you do with the rents you collected? You had a receipt book?

Mr. ROIDER. I gave everyone a receipt for the rent. I turned the money in to Mr. Richard Levine.

Mr. BLUM. He's the bookkeeper in United?

Mr. ROIDER. No; he is in charge—(conferring)—of servicing, the head of the servicing department.

Mr. BLUM. Would he countersign the receipt leaving you with a record that you paid the money?

Mr. ROIDER. On rent? No; he didn't countersign that. That I gave him on a separate piece of paper. He only countersigned on my collection of mortgage payments because it went into a different group, so that was different in the receipt book.

Mr. BLUM. On the receipt book you collected rents on, you never got a countersignature for money, that you paid the money in to United?

Mr. ROIDER. Oh, yes, I got a slip indicating——

Mr. BLUM. I see, a receipt from United.

Mr. ROIDER. From United to me that I paid the money. Otherwise, they would have no record of my money.

Mr. BLUM. Do you remember inspecting properties that were being sold by Celia Carrero?

Mr. ROIDER. Yes.

Mr. BLUM. What do you think about the quality of the repair work in those properties?

Mr. ROIDER. There were times that it was done haphazardly. There were times that we had to go back again and tell them to do it over. And there were times that it was just according to conditions that they did just what they were supposed to do.

Mr. BLUM. I have the records of the Henmor Funding Co., and Mr. Lowell Weinerman of R&W Associates was the principal. The records indicate Mr. Roider was paid an average of \$25 a house. And they show a payment of \$25 associated with particular properties. I ask that the appropriate pages be made a part of the record.

Senator HART. Without objection.

Mr. BLUM. Mr. Roider, were those gratuities for making inspection of those properties? What were those payments for?

Mr. ROIDER. Can I take a look at that, please?

Mr. BLUM. (handing document). Certainly.

Mr. ROIDER (conferring with Mr. Schaum). There is neglect on my part, Mr. Blum, that I have a 1099 form from Henmor.

Mr. BLUM. You have a 1099 from Henmor?

Mr. ROIDER. Yes; which I neglected to send you.

Mr. BLUM. That was neglected to be sent in in conjunction with the subpoena. I take it you will now furnish it for the record?

Mr. ROIDER. Oh, definitely.

Mr. BLUM. Let me go back to the question I put earlier. That \$25, was it in connection with the house? Is that a gratuity for making the inspection on that house?

Mr. ROIDER. I believe so.

Mr. BLUM. Was that the customary amount that R&W or Henmor would pay?

Mr. ROIDER. Yes; it would more or less be an average, between \$20 and \$25.

Mr. BLUM. \$20 or \$25 to make the inspection?

Mr. ROIDER. Yes.

Mr. BLUM. I would just like to go through this for a minute so the record is clear on it.

When I bought a house, if the escrow was established for repairs, it would be up to me to say, "I'm not buying through FHA," if the repairs were done satisfactorily or not done satisfactorily?

Mr. ROIDER. That's correct.

Mr. BLUM. I would be the buyer and I would decide, do I release the escrow or don't I; we would have to reach some sort of agreement on that, this fellow and I?

Mr. ROIDER. Wait a minute, I don't follow you, sir.

Mr. BLUM. What I'm getting at is that in the FHA situation, the buyer of the house had very little to do with whether or not escrow was released; is that correct?

Mr. ROIDER. Well, they wouldn't know that.

Mr. BLUM. You never talked to the buyer to find out if he was satisfied with the repairs, would you?

Mr. ROIDER. Yes. I found him home after a closing, I mean, this is after a closing and I was inspecting the property and he was on the premises. Naturally, I had to go through the house with him, just let him walk around. He would tell me, I asked him, "Are you satisfied with everything that's done?" And he said, "Yes," but he would come up with other problems.

Mr. BLUM. If he said he was dissatisfied, would you refuse to release the escrow?

Mr. ROIDER. I'd ask him first what he was dissatisfied with. If it was a stupid thing, I would just leave it go. I would write it off or I would contact the broker and say, "Look, Mr. So and So is not satisfied, send back the plumber or the painter," whatever the case may be.

Mr. BLUM. You knew, of course, that depending on whether or not you approved the inspection, your inspection said repairs were done properly, funds would be released to brokers and the brokers were very interested in having those funds released; is that correct?

Mr. ROIDER. That's correct.

Mr. BLUM. Did you get the feeling that if you became too tough in your inspections, people back at the office, at United, would be upset because brokers would be angry and take their business somewhere else?

Mr. ROIDER. Well, I would assume that, but that happened at times where a broker would be angry, call the office, and didn't get an inspection right away, or Mr. Roider didn't come there, or Mr. Roider had to come back and he didn't come back that day that he promised.

Mr. BLUM. Did that company ever tell you you weren't being tough enough in the inspection?

Mr. ROIDER. No.

Mr. BLUM. Was it ever suggested that you had been too tough?

Mr. ROIDER. At times, yes; at times.

Mr. BLUM. So the pressure was there in the direction of not being stringent because that was in the financial interest of the company?

Mr. ROIDER. In a way; yes.

Mr. O'LEARY. I take it the other mortgage companies, such as Eastern and Inter-Island had somebody who did inspections, too?

Mr. ROIDER. Yes; I'm sure they had.

Mr. O'LEARY. As Mr. Blum mentioned, if your inspections were too tough, the broker was always free to do business with some other mortgage company?

Mr. ROIDER (conferring). That would be an incentive for them to do it; yes.

Senator HART. Do you care to add anything?

Mr. SCHAU. We would like to clarify that last answer instead of letting it hang that way on the record.

Mr. ROIDER. It didn't influence me one way or another as far as what they thought of my inspections. I mean, being that the broker

wanted to take their business some place else, that would be up to them. But, I wouldn't change my mind on any one of these inspections if the work wasn't done or wasn't done properly.

Mr. O'LEARY. I understand. But it is in the interest of your mortgage company to maintain a good relationship with the brokers?

Mr. ROIDER. We tried to maintain a good relationship with all brokers.

Mr. O'LEARY. Mr. Katz testified the brokers were the raw material end of mortgage company business, right?

Mr. ROIDER. Are they raw material?

Mr. O'LEARY. Right.

Mr. ROIDER. Of course.

Mr. O'LEARY. Mortgage companies compete with each other for brokers; do they not?

Mr. ROIDER. Right.

Mr. O'LEARY. If you or some other inspector for a mortgage company got tough, that broker was always free to take his business to some competitor?

Mr. ROIDER. We will assume that. There is always that possibility; yes.

Mr. O'LEARY. Thank you.

Mr. BLUM. Were any of the people at United aware that you were receiving gratuities for your inspection? Did Mr. Roth know?

Mr. ROIDER. I believe he did know, yes; I believe he did know.

Mr. BLUM. Did Mr. Katz know?

Mr. ROIDER. I am not sure. I believe Mr. Roth may have told him. In fact, yes, I think I did mention to Mr. Katz that I did receive gratuities because of doing my work, going out on Saturdays, and after hours. They appreciate that.

Mr. BLUM. Did Mr. Roth discuss your testimony here this morning with you, or the prospect of your testifying with you——

Mr. ROIDER. No.

Mr. BLUM (continuing). Before you came?

Mr. ROIDER. No; I haven't talked to Mr. Roth now in over 2 weeks, I believe.

Mr. BLUM. Do you have any idea of how many buildings you inspected in the course of your tenure with United?

Mr. ROIDER. I have no idea.

Mr. BLUM. Do you have any idea per week, how many a year?

Mr. ROIDER. It would vary on a weekly basis. I was able to do six a day sometimes; sometimes I would do four. Of course, one day in a week, I had to be in New York. I would safely say, between 25 or 35, give or take.

Mr. BLUM. Twenty-five or thirty-five a week?

Mr. ROIDER. That's a lot, but I'm just assuming that. We didn't go on the basis of piecework. It was a question of getting in and seeing what had to be done. Time would elapse. There were times we could get in and get out.

Mr. BLUM. As I make that, that's about 750 inspections a year, roughly.

Mr. ROIDER. I could safely say, let's take a figure of what United did in Brooklyn alone, take the percentage of the majority of inspections I had to do. Of course, there were also FHA inspections involved there, too.

Mr. BLUM. It would be safe to say, though, in your career with United, you inspected several thousand houses; wouldn't it?

Mr. ROIDER. I would assume so.

Mr. BLUM. I have no further questions.

Senator HART. Gentlemen, thank you very much.

Mr. SCHAUM. Could we find out from Mr. Roider if his inspections at any time were counterinspected by the FHA or some other governmental agency, perhaps?

Mr. BLUM. I'm not quite sure I understand the import of that, Mr. Schaum. Should we ask whether there was a reinspection? Are you asking us to ask FHA?

Mr. SCHAUM. Yes—no. I'm just asking Mr. Roider if there is—

Mr. BLUM. Were they reinspected?

Mr. ROIDER. Yes, there were some that were reinspected, from time to time, spot inspected.

Mr. BLUM. Spot checks, in other words, of your work.

Mr. ROIDER. Right.

Mr. BLUM. Were you ever criticized by FHA as to the quality of your inspection job?

Mr. ROIDER. There was one criticism that came about where I wrote off a job where they said "Paint exterior trim." That was in the early part of the game where I was a layman. I wrote that off. Of course, "exterior" means "front and rear," and "rear" was not done. We got in touch with the broker.

Mr. BLUM. That was the only time that you were criticized?

Mr. ROIDER. Well, there were other times where they went back and they found other work, other than what I wrote off.

Mr. BLUM. Was there anything else that you wanted?

Mr. SCHAUM. No; no, thank you.

Senator HART. Thank you.

We are adjourned, to resume—well, we will state it for the record when. (Thereupon, at 1:25 p.m., the subcommittee recessed, to reconvene at the call of the Chair. Testimony resumes on p. 523.)

Material Relating to the Testimony of Irving Roider

EXHIBIT 1

Documents Received From Irving Roider Pursuant to Subpena Dated March 6, 1972

HOLLENBERG, WIDDER, FISHMAN, SCHAUM & LEVIN,
Mineola, N.Y., May 9, 1972.

Hon. JACK BLUM,
*Senate Subcommittee on the Judiciary,
Washington, D.C.*

DEAR MR. BLUM: In conjunction with the appearance of Mr. Roider before your committee on May 5, 1972, please find enclosed copy of form #1099 for the year 1968 regarding Henmor Funding Corp.

Very truly yours,

MARTIN SCHAUM.

RE IRVING ROIDER SUBPENA

RE PARAGRAPH ONE (1)

I have held no stock ownership in any domestic corporation other than those listed on the New York or American Stock Exchange for the period January 1, 1967 to January 1, 1972.

RE PARAGRAPH TWO (2)

In 1969, I received the sum of \$282.50 as interest from a mortgage investment through Delta Capital Corp.

A copy of my form 1099 is attached hereto.

During the year of 1968, I received from R & W Associates the total sum of \$625.00.

A copy of the sums received from R & W Associates as shown on U.S. Information Form #1099 is attached hereto.

During the year 1969, I received the sum of approximately \$650.00 from R & W Associates.

A copy of the sums received from R & W Associates as shown on U.S. Information Form #1099 is attached hereto.

Further, I received the sum of approximately \$1200-\$1600 in gifts during the years discussed from many different brokers, with whom we had done business.

Most of the above sums of money were received for various services rendered to brokers on my own time, that is, evenings, weekends and Saturdays. A small portion were gratuities paid me for inspections.

Much of this money was received for expenses incurred which were not reimbursed by United Institutional Servicing Corporation inasmuch as this additional work was done on my own time.

RE PARAGRAPH THREE (3)

I invested in only one house during the period January 1, 1967 to January 1, 1972.

I invested the sum of \$750.00 with Terra Mar Enterprises for the purchase of premises known as 1273 Jefferson Avenue, Brooklyn, New York. I am unaware of the intermediate transactions, but received a profit of \$535.12 in December of 1971.

RE PARAGRAPH FOUR (4)

During the period January 1, 1967 to February 29, 1972, I was the President of Repo Realty Corp., which has its main office at 25 West 43rd Street, New York, New York. This corporation came into being on February 15, 1967.

I received no salary for being an officer of this corporation nor did I receive any shares of stock in said corporation.

This corporation was used as a vehicle for holding title to loans on a temporary basis, until such time as the property was rehabilitated.

A copy of the Repo Realty Corp. transactions is attached hereto.

ALBERTSON, N.Y., April 7, 1972.

Hon. JACK BLUM,
Senate Subcommittee on the Judiciary,
Washington, D.C.

DEAR MR. BLUM: The purpose of this letter is to supplement the records I forwarded to you a short time ago.

On October 6, 1967, I invested \$500.00 with Gainmore Realty Corp. in the purchase of premises 233 Van Siclen Avenue, Brooklyn, New York and realized a profit of \$757.87 on February 16, 1968. On August 8, 1968, I received a commission of \$300.00 concerning premises 585 Shepherd Avenue, Brooklyn, New York from Gainmore Realty Corp.

I would appreciate your adding this letter to my file.

Very truly yours,

IRVING ROIDER.

FIG. 1. (continued)

1. 1. 1.

Dielectric constant ϵ_r and loss tangent $\tan \delta$ were measured by the resonance method [14].

GENTLEMEN: Pursuant to the subpoena dated March 6, 1972, I am enclosing herewith items requested in said subpoena.

IRVING ROIDER.

11-6003154
H. W. Aschroter
1103 Madison Road
Brooklyn, New York 11212

[illegible]

U.S. Treasury Dept., Bureau of Economic Analysis

Copy to
For [unclear]

1103 Bedford Road
Brooklyn, New York 11212

[illegible]

U.S. Treasury Dept., Bureau of Economic Warfare

Copy B
For Depon

<p>6. <u>Expenditures</u> <u>ent. autres</u> <u>fact. un</u> <u>d'imp. de m. c. c.</u></p>	<p>650.00</p>
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11-2148198
R F W Associates Inc.
1105 Flatland Road
Brooklyn, New York 11212

[illegible]

13 2.5/7622

U.S. INFORMATION RETURN 1953
[See instructions on Form 1061]

BY WHOM PAID
NAME & ADDRESS
AND LIST THE NUMBER

222 : 50 :
059 - 10 069

James R. Baird

CODE

1. generate a random distribution
2. estimate the parameters of the distribution
3. calculate the approximate uncertainty estimates
4. perform experiments and learn other distributions by exploring
5. generate the policy

ACCOUNTANT SUPPLY HOUSE
GREEN TINT NO. 507
NATURAL TONE NO. 7707

Initials Date
Prepared By
Approved By

Exp. 1947

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4						
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42	1.00					

ACCOUNTANT SUPPLY HOUSE
GREEN TINT NO. 6607
NATURAL PINE NO. 7707

Initials: I
Prepared By:
Approved By:

Copy 2nd

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Dr. Thomas Lee					10/10/10	
2	June, 1911						
3							
4							
5	Ent 21.5			1000.0			
6	(also check in ledger)						
7	for same)						
8							
9	Stationery, copy					10/10/10	
10	County, June, 1911						
11							
12							
13	Deposited 10/10		760.75				
14	20/10		912.50				
15	11/10/10		204.39				
16	10/10/10		760.75				
17							
18							
19	Property transferred from to Ene						
20	County, June, 1911						
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31	Mr. Thomas Lee						
32	Brooklyn, N.Y.						
33							
34	Ent 1/10			2960.50			
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38	Transfer from Ene to Ene						
39	County, June, 1911						
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44							
45							

EXHIBIT 2

Material Received From Jack Altabe Under Subpoena Showing Commissions Received and Gratuities Paid (Additional Materials May Be Found in Subcommittee Files)



JAX REALTY CO.

REAL ESTATE • MORTGAGES • INVESTMENTS

1103 RUTLAND ROAD

BROOKLYN, N. Y. 11212

PRESIDENT 2-6900

April 27, 1972

1 1972
The Honorable Philip A. Hart
Chairman, Committee on Antitrust & Monopoly
Committee on the Judiciary of the Senate
of The United States
Room 203
Senate Annex
Washington, D. C. 20510

Dear Sir:

Enclosed please find documents described in attachment "A" number 4&5.

As per my conversation with Mr. Jack Blum we had agreed to furnish material for 1968 & 1969 with the balance to be delivered at a later date.

I am herewith enclosing material for 1968, 1969 & 1970. Thanking you for your cooperation I remain.

Respectfully yours,
Jax Realty Co.

Jack Altabe
Jack Altabe

JAm
ENCLS:

JACK ALTABE

DBA Jax Realty Co., 1103 Rutland Road, Brooklyn, New York 11212

Date	Property Address	Amount	Payer	Address of Payer	Comment
1/11/68	555 Barclay St. Bklyn	1000.-	As of Realty	Atlantic Ave	sale
2/13 "	357 E 95 St	1700.-	Flg Duane	45 W Church	sale
1/30 "	39 V Rockway Plng	1800.-	Herman Funding	1103 Rutland Pl	sale
2/9 "	88 E 56 St	1800.-	Herman Funding	1103 Rutland Pl	sale
2/16 "	243 E 48 St	1400.-	United Eastern	147 E 44 St	sale
3/13 "	115 West-Taylor Ave	1450.-	Herman Realty	Atlantic Ave	sale
3/17 "	47 E 94 St	1700.-	O. Diego Realty	4701 Church Ave	sale
3/19 "	2018 Avenue H	800.-	O. Diego Realty	4201 Church Ave	sale
3/21 "	14 E 96 St	1800.-	Resident Realty	14 E 96 St	sale
3/29 "	494 E 95 St	1830.-	Tinto Funding	1103 Rutland Pl	sale
4/1 "	242 E 93 St	1710.-	Funny Flyers	777 Westchester Ave	sale
4/5 "	231 E 76 St	1700.-	Herman Funding	1103 Rutland Pl	sale
4/8 "	189 E 96 St	1770.-	Herman Funding	1103 Rutland Pl	sale
4/10 "	446 Rutland Pl	1044.-	Earl Livingston	1105 West End Ave	sale
4/14 "	244 Kensington St	1200.-	Real Estate	44 Kellie Ave	sale
4/16 "	527 E 96 St	2000.-	Hudson	527 E 96 St	sale
4/19 "	38 E 91 St	1300.-	O. Diego Realty	4701 Church Ave	sale
4/21 "	373 Williams St	1160.-	Earl Livingston	1105 West End Ave	sale
4/27 "	285 Rockway Plng	771.-	J. Murphy	285 Rockway Plng	sale
4/28 "	611 E 96 St	1710.-	Barbels Realty	44 Kellie Ave	sale
4/29 "	558 E 93 St	1800.-	Herman Funding	1103 Rutland Pl	sale
4/30 "	374 E 93 St	1800.-	Herman Funding	1103 Rutland Pl	sale
4/31 "	159 E 90 Ave	1116.-	John Cray	New York Ave Bklyn	sale
5/1 "	39 Rockway Plng	1700.-	Excavation	1083 Rutland Pl	sale
5/18 "	339 Canal St	1700.-	Revin Realty	1146 Rockwell Ave	sale
5/19 "	68 De Sales Pl	1000.-	Tinto Funding	1103 West End Ave	sale
5/25 "	1018 Rutland Pl	1740.-	For Sale	Construction Name on sale	sale
5/29 "	665 Rockwell Ave	1600.-	Genius Realty	237-05 113 St Bklyn	sale
5/30 "	724 E 93 St	1600.-	Genius Realty	724 E 93 St	sale
5/31 "	615 E 96 St	1218.-	Carole Corp	1538 West End Ave	sale
6/10 "	99 Kensington St	1170.-	Boston Realty	Kensington Ave	sale
6/13 "	1034 Rutland Pl	1000.-	L. Zimmerman	334 E 91 St	sale

JACK ALTBABE

DEA Jax Realty Co., 1103 Rutland Road, Brooklyn, New York 11212

Date	Plt	Property Address	Amount	Payer	Address of Payer	Comm
1	615	49		Jack Berlin	136 E 95th St	Feb
2	618	"	1500-	Jax Realty Co	3712 Church Ave	Feb
3	446	"	1470-	"	"	"
4	612	"	1400-	Arthur Berg	259 Convent St	Feb
5	613	"	1400-	Arthur Berg	897 Richmond St	Feb
6	717	"	980-	J. Thorsen	719 E 93rd St	Feb
7	1117	"	1600-	B. Schell	103 West 124th St	Feb
8	585	"	1500-	Harmon J. Berg	713 West 124th St	Feb
9	586	"	1500-	Raymond Berg	West 124th St	Feb
10	811	"	1386-	H. Berg	103 West 124th St	Feb
11	812	"	1800-	Harmon J. Berg	1146 Richmond St	Feb
12	813	"	1540-	Rice Realty Co	1146 Richmond St	Feb
13	915	"	1500-	Samuel Berg	1146 Richmond St	Feb
14	916	"	1500-	M. Harman	1146 Richmond St	Feb
15	1017	"	1425-	D. Berg	4701 Church Ave	Feb
16	1018	"	1500-	Harmon J. Berg	1193 West 124th St	Feb
17	1117	"	1440-	Karl Berg	448 West 124th St	Feb
18	1118	"	810-	D. Berg	958 West 124th St	Feb
19	1119	"	1800-	Trust Realty Co	1103 West 124th St	Feb
20	1120	"	1200-	Robert Berg	48 West 124th St	Feb
21	1121	"	1600-	Harmon J. Berg	1146 Richmond St	Feb
22	1122	"	1000-	M. Harman	713 West 124th St	Feb
23	1123	"	1350-	Harmon J. Berg	801 West 124th St	Feb
24	1124	"	1160-	Art Berg	1113 West 124th St	Feb
25						
26	118	70	1300-	J. Heller	459 E 96th St	Feb
27	113	"	915-	Harmon J. Berg	1393 Richmond St	Feb
28	114	"	1536-	Harmon J. Berg	1146 Richmond St	Feb
29	115	"	440-	T. Berg	710 West 124th St	Feb
30	116	"	1500-	Art Berg	1113 West 124th St	Feb
31	117	"	1091-	Art Berg	1113 West 124th St	Feb
32	118	"	461-	Harmon J. Berg	76 Convent St	Feb

JACK ALTABE

DBA Jax Realty Co., 1103 Rutland Road, Brooklyn, New York 11212

Date	Project	Address	Amount	Payer	Address of Payer	Comments
1/15	70	775 E 52 St	1800 -	Turbo Family Co	1103 Rutland Rd	sale
1/11	"	129 Schaff St	1400 -	Robert Realty	48 Wall St	sale
1/16	"	30 Morgan Ave	1175 -	Prima Realty	1146 Richmond Ave	sale
3/16	"	1641 Riverside	2448 -	Herman Realty	1103 Rutland Rd	sale
3/13	"	315 E 31 St	1600 -	John van Realty	1713 West End Ave	sale
3/10	"	169 E 36 St	2500 -	Wanger	12 E 16 St	sale
3/14	"	129 West End St	1831 -	Art Realty	1713 West End Ave	sale
4/1	"	416 E 93 St	1000 -	Velez	486 E 93 St	sale
4/8	"	300 E 98 St	1800 -	Herman Realty	1103 Rutland Rd	sale
4/1	"	201 E 94 St	2000 -	Herman Realty	1103 Rutland Rd	sale
4/14	"	703 Park Rd	1000 -	S. Glan	17 Wall St	sale
4/24	"	207 West End	1350 -	Prima Realty	1146 Richmond Ave	sale
5/1	"	1490 Jefferson Ave	1530 -	Prima Realty	1146 Richmond Ave	sale
5/7	"	320 E 91 St	1100 -	S. Zuckerman	320 E 91 St	sale
5/15	"	375 E 101 St	1410 -	Robert Realty	48 Wall St	sale
5/16	"	432 E 53 St	1710 -	Prima Realty	3723 Church Ave	sale
5/15	"	145 East 101 St	1416 -	Harborside Assoc	16 Court St	sale
5/19	"	247 E 55 St	1730 -	Herman Realty	1103 Rutland Rd	sale
6/1	"	327 Woodlawn	1600 -	Prima Realty	1146 Richmond Ave	sale
6/5	"	207 E 43 St	1100 -	O Diego Realty	4701 Church Ave	sale
6/15	"	147 E 38 St	1300 -	Pis Realty	3723 Church Ave	sale
6/16	"	300 E 93 St	2040 -	S. Zuckerman	300 E 93 St	sale
6/16	"	735 Crown St	1845 -	Dr. Wang	735 Crown St	sale
6/19	"	347 E 15 St	2906 -	P. Realty	347 E 15 St	sale
7/15	"	3 Duane Ct	900 -	Art Realty	1713 West End Ave	sale
7/16	"	148 E 51 St	1500 -	A. Goldstein	148 E 51 St	sale
7/17	"	191 E 8 St	1480 -	Harborside Assoc	16 Court St	sale
7/18	"	176 E 15 St	1800 -	Williston	176 E 15 St	sale
7/18	"	201 West End St	1150 -	First Realty	823 West End Ave	sale
7/19	"	18 St Paul St	1344 -	Agreement Apartment	14 Court St	sale
7/31	"	1781 Tilden Blvd	1380 -	Robert Realty	48 Wall St	sale
8/14	"	463 West End St	1800 -	O Diego Realty	4701 Church Ave	sale

DBA Jax Realty Co., 1103 Rutland Road, Brooklyn, New York 11212

Date	Ref	Property address	Amount	Payer	Address of payer	Cause
8/18	70	447 E 94 St Wklyn	1300 -	Vista Center	447 E 94 St Wklyn	sale
8/18	"	45 E 59 St	1850 -	Al. Ellerman	823 Westland Ave	sale
8/19	"	150 Jerome St	2091 -	Delta Trust Co	267 Jerome St	sale
8/19	"	871 New York Ave	530 -	Leahy	871 New York Ave	sale
8/19	"	983 W. 125th St	1600 -	Manhattan Trust	1103 Rutland Ave	sale
9/1	"	3010 Kuyper St Wklyn	1837 -	Landmark Agency	44 Canal St	sale
9/1	"	305 E 91 St	1300 -	S. Zuckerman	371 E 92 St	sale
9/1	"	234 E 91 St	1911 -	J. Kallus	324 E 91 St	sale
9/1	"	236 E 49 St	1500 -	M. Mandelbaum	790 Clarkson Ave	sale
9/20	"	352 15th St Wklyn	600 -	Wm. Perry	Beaver St	sale
10/15	"	568 W 17th St	700 -	T. Perry	576 W 17th St	sale
10/20	"	121 17th St Wklyn	1450 -	Manhattan Realty	1146 Westside Ave	sale
11/4	"	1635 Riverside St	2000 -	Manhattan Trust Co	1107 Westside Ave	sale
11/4	"	1094 Franklin St	2000 -	Bank	447 Jerome Ave	sale
11/5	"	111 E 94 St	1500 -	Quigley	111 E 94 St	sale
11/10	"	343 E 51 St	1760 -	Quigley Realty	1713 Westside Ave	sale
11/16	"	1190 W 4th Ave	1664 -	O'Driscoll Realty	4701 Church Ave	sale
11/20	"	669 De Waverly St	1550 -	Highway Realty	26 Canal St	sale
12/27	"	653 E 91 St	1890 -	P. Rindler	653 E 91 St	sale
12/28	"	159 W 17th St	1455 -	Manhattan	159 W 17th St	sale
12/28	"	301 E 93 St	2000 -	Manhattan	301 E 93 St	sale
12/28	"	1098 Franklin St	978 -	Landmark Agency	44 Canal St	sale
12/28	"	204 Vernon St	1110 -	O'Driscoll Realty	4701 Church Ave	sale
12/28	"	199 Logan St	1350 -	O'Driscoll Realty	1713 Church Ave	sale

Jack Altabe

DBA Jax Realty Co.

Tinto Funding Corp.

Year of Distribution	To Whom Paid	Reason	Amount
10/1/67 Limited	G. Canavan	Gratuity Close	20 -
10/1/68 Limited	G. Canavan	Gratuity Close	20 -
10/1/68 Limited	E. Versfield	Gratuity Close	20 -
10/6/69 Limited	P. Cronley	Gratuity Close	20 -
10/1/70 Limited	G. Canavan	Gratuity Close	20 -
10/1/70 Limited	S. Rattie	Inspection/Gratuity	20 -
10/1/70 Springfield	Wm. Waud	Gratuity Close	10 -
10/1/70 Limited	S. Rattie	Gratuity Insured	20 -
10/1/70 Limited	G. Canavan	Gratuity Close	20 -
10/1/70 Limited	P. Cronley	Gratuity Close	20 -
10/1/70 Limited	S. Rattie	Gratuity Insured	20 -
10/1/70 Limited	G. Canavan	Gratuity Close	20 -
10/1/70 Limited	G. Canavan	Gratuity Close	10 -
10/1/70 Limited	G. Canavan	Gratuity Close	20 -
10/1/70 Limited	E. Versfield	Gratuity Close	20 -
10/1/70 Limited	G. Canavan	Gratuity Close	20 -
10/1/70 Limited	G. Canavan	Gratuity Close	20 -
10/1/70 Limited	S. Rattie	Gratuity Insured	20 -
10/1/70 Limited	G. Canavan	Gratuity Close	20 -
10/1/70 Limited	P. Cronley	Gratuity Close	20 -
10/1/70 Limited	P. Cronley	Gratuity Close	20 -
10/1/70 Limited	S. Rattie	Gratuity Insured	20 -
10/1/70 Limited	P. Cronley	Gratuity Close	20 -

83-703 1383

HOUSING HEARINGS

MONDAY, MAY 15, 1972

U.S. SENATE,
COMMITTEE ON THE JUDICIARY,
SUBCOMMITTEE ON ANTITRUST AND MONOPOLY,
Washington, D.C.

The Subcommittee on Antitrust and Monopoly convened in room 1202, New Senate Office Building, at 11:20 a.m., Hon. Philip A. Hart (chairman) presiding.

Present: Senator Hart.

Staff present: Howard O'Leary, Esq., chief counsel; Jack A. Blum, Esq., assistant counsel; Peter M. Chumbris, chief minority counsel; and Charles Kern, minority counsel.

Senator HART. Before we start, I apologize for the delay, but another committee scheduled a hearing in which I felt an obligation to testify.

The committee will be in order. Now, our first witness this morning is Mr. Kenneth A. Duncan, the regional vice president of the Federal National Mortgage Association.

(Whereupon, Mr. Duncan was sworn by the chairman.)

Senator HART. You were good enough to give us a statement in advance, and we will order it printed in full in the record. As you go along, if you would care to expand it or footnote it at any point, feel free to do so.

STATEMENT OF KENNETH A. DUNCAN, REGIONAL VICE PRESIDENT, NORTHEASTERN REGION, FEDERAL NATIONAL MORTGAGE ASSOCIATION

Mr. DUNCAN. Mr. Chairman, my name is Kenneth A. Duncan. Since September 1, 1969, I have been regional vice president of the Federal National Mortgage Association, and this is termed Fannie Mae or FNMA in my written statement, with offices located in Philadelphia, Pa. I was an assistant regional vice president of the Fannie Mae southeastern region before my present assignment. I am responsible for administering Fannie Mae programs within the northeastern region, which includes the following 16 jurisdictions: Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Puerto Rico, Rhode Island, Vermont, Virgin Islands, Virginia, and West Virginia.

I have with me today Mr. Oliver J. McCarron, on my right. He is assistant regional vice president for our loan division. On my left, Mr. John R. Reed, regional counsel.

I appear today at the request of the subcommittee to discuss generally the mortgage situation in the city of New York as it relates to Fannie Mae, and to provide the subcommittee, at its request, with certain data regarding specific mortgage companies. My comments on the mortgage financing in the New York City area will be limited to FHA home mortgages, which are defined as one- to four-family units. As later discussed, all of these mortgages are serviced for Fannie Mae by approved servicers.

Before discussing with you the points which I have been asked to cover, I think it would be well to give you, Mr. Chairman, a brief outline of the Federal National Mortgage Association and its relations with its seller-servicers.

The Federal National Mortgage Association is chartered by title III of the National Housing Act, as amended, for the express purpose of establishing a secondary market facility for home mortgages financed by private capital. Fannie Mae is a corporation owned and financed by private funds. Section 309(h) of the National Housing Act, 12 U.S.C. 1723a(h), grants the Secretary of Housing and Urban Development general regulatory powers over Fannie Mae and states that the Secretary may require a reasonable portion of the corporation's mortgage purchases be related to the national goal of providing adequate housing for low-and moderate-income families. As you know, the Congress intends that Fannie Mae use a reasonable portion of its facilities to support the public purpose of adequate housing for low-and moderate-income families using private capital, but with a reasonable economic return to the corporation.

Fannie Mae does not originate mortgages, but purchases them from approved sellers. To be approved by Fannie Mae as a seller, an applicant must be an approved FHA mortgagee, and its principal business, or a significant part thereof, must be the making or purchasing of loans secured by real estate mortgages.

Home mortgages purchased by Fannie Mae are serviced by approved servicers. An approved Fannie Mae servicer must have the same qualifications as an approved seller and must demonstrate that it has the facilities and experience to satisfy all of the Fannie Mae and FHA requirements. A Fannie Mae seller usually is also a Fannie Mae servicer. If a seller is not an approved servicer, it must arrange for an approved Fannie Mae servicer to service each loan it sells to Fannie Mae.

Fannie Mae purchases its mortgages pursuant to forward commitments. Delivery of mortgages under the commitments is optional with the seller. Each seller must represent that it has complied with all the applicable provisions of the National Housing Act or the Servicemen's Readjustment Act of 1944 for each mortgage delivered to Fannie Mae for purchase.

A seller must represent that it has met several Fannie Mae requirements when it delivers a loan for purchase. Included in these requirements are such matters as the seller's compliance with applicable State and Federal laws, that the seller is the owner of the mortgage, that the mortgage is a valid lien, and that the seller knows of no circumstances existing at the time the mortgage is delivered that would adversely affect the marketability of the loan.

The documents submitted to Fannie Mae by a seller to support a mortgage purchase do not include any information as to the property

or the borrower's credit. Fannie Mae relies on the FHA for evaluating and underwriting the property and credit.

The servicer's responsibility for current loans is collecting mortgage payments and remitting them to Fannie Mae; keeping adequate records; collecting escrow funds and disbursing payments for taxes, FHA mortgage insurance, and hazard insurance premiums when they become due; preparing satisfactions for loans paid in full; and notifying FHA insuring office in writing when a change in ownership of the property occurs.

The servicer is paid by Fannie Mae only for mortgage installments actually collected. It receives no compensation for delinquent loans or for mortgages in foreclosure.

When payment of a loan becomes past due, the servicer is responsible for making appropriate efforts to collect the unpaid installments. Fannie Mae does not prescribe the specific techniques to be used, but we do require a system that will provide proper servicing of the mortgage. Generally, we require the servicer to use letters, telephone calls, personal contacts, and such other methods as needed. The servicer is expected to counsel the borrower and help him arrange payments he can afford, allowing time to catch up on an installment basis the past due payments. Such method for eliminating a delinquency is called by Fannie Mae a liquidating plan.

Fannie Mae encourages servicers to use every possible method to assist the borrower in avoiding the loss of his home. Fannie Mae will accept any agreements with the borrower to forbear, recast, reamortize, extend, or modify the terms of the mortgage in hardship cases where the servicer recommends such agreement, provided it is approved by the FHA insuring office. The conditions that support the use of such relief include illness, death, temporary suspension or reduction of income, and other conditions which create a hardship on the borrower.

The servicer is required to physically inspect properties as needed to prevent waste or deterioration. When the property is vacant and the servicer is unable to locate the borrower, he recommends to Fannie Mae that the mortgage be foreclosed on the basis of an abandonment and notifies FHA of the abandonment.

If it is determined that the borrower cannot meet his obligations, the servicer, on or before the loan is 90 days in arrears, must file a default notice with the FHA insuring office that foreclosure is imminent. A subsequent default notice is filed each 6 months thereafter until the account is brought current or foreclosure action is initiated. Concurrently with the filing of the default notice to the FHA, the servicer must make his recommendation to Fannie Mae as to whether to accept a deed in lieu of foreclosure, to foreclose, or take any other appropriate action.

The report sets forth the efforts made by the servicer to keep the loan from being liquidated.

Upon receipt of the servicer's recommendation, Fannie Mae notifies the servicer of its approval or disapproval of the recommended action. Fannie Mae will disapprove the recommended action if the servicer has not furnished sufficient evidence that it has exhausted all reasonable efforts to bring the loan current. With the approval of foreclosure by Fannie Mae, the bond or note is forwarded to the servicer with instructions to refer the case for foreclosure. The servicer

is then responsible for liaison with the foreclosing attorney, the Fannie Mae office, and the FHA insuring office to assure prompt processing of the foreclosure.

The servicer is required to notify the FHA insuring office when the attorney commences the foreclosure action, and again when the property is sold at foreclosure. If the property is vacant, the servicer is responsible for completion of the foreclosure by obtaining the deed, conveying title to the Secretary of Housing and Urban Development, and sending it and the claim for insurance to FHA Washington.

During the period of foreclosure, the servicer is responsible for the proper protection of the property and must secure it as necessary. In New York City, the property is usually occupied at date of the foreclosure sale. To meet the FHA requirement, the servicer and the foreclosing attorney are responsible for dispossessing the occupants before the claim under the insurance can be submitted to FHA, unless the FHA insuring office is willing to accept the property occupied.

If a borrower offers to pay all arrearages and any foreclosure expenses incurred after Fannie Mae has approved foreclosure and before the foreclosure has proceeded to sale, the servicer generally accepts reinstatement of the loan and has foreclosure dismissed. Any reinstatement must be reported to the FHA insuring office. Fannie Mae does not receive any copies of the notices from the servicer to the FHA relative to the various stages of default and foreclosure.

The supervision of servicers by Fannie Mae is accomplished by the following methods:

First, the accounting reports are reviewed by our Washington office. Notices of problems are sent to servicers and copies are furnished to the regional office.

Monthly reports of loans in arrears are furnished by the servicer to the regional office. These reports are reviewed by regional personnel to ascertain if the servicer is having any unusual problems in his collections efforts.

The regional loan representative contacts the servicer and reviews any matters that indicate the servicer's performance may be weak. On personal visits, he reviews the servicer's records of collections and compares them with the recommendations to foreclose to assure that the efforts made by the servicer to contact the borrower are properly supported.

Audits are made of servicers on a frequency determined by the Director of Audits. However, the regional office may request a special audit when there is reason to feel that the servicer's performance requires such an audit. The audits include accounting, selling, and servicing matters referred by Washington or regional personnel, in addition to a selective examination of transactions which the auditor considers appropriate.

Problems in a servicer's performance may be disclosed by any or all of the supervisory methods discussed above. In determining appropriate corrective action, the regional office evaluates problems and their cause and takes action it considers appropriate.

A most frequent problem encountered by the region is the high percentage of the servicer's loans that are in arrears. Generally, these

are resolved after correspondence, telephone calls, and office visits by the servicer.

Occasionally, a servicer may continue to have a high delinquency ratio after repeated contacts by the regional office. In such cases, the regional office may place the servicer under closer supervision and may require the servicer to report its progress in overcoming deficiencies by special reports or visits to the regional office. When a servicer is under such special supervision, Fannie Mae refers to this as a period of probation. The purpose of probation, as it is used in the northeastern region, is to make the servicers aware that continued inadequate performance will result in more severe action.

The regional office has no authority to suspend a seller's selling privileges or to terminate unilaterally its selling and servicing agreements. When a seller-servicer does not respond to the efforts of the regional office to correct unsatisfactory performance, or when the regional office is advised that FHA has suspended the mortgagee privileges of a Fannie Mae seller-servicer, a recommendation is made to Fannie Mae in Washington that (1) The selling privileges of the seller-servicer be suspended until the cause for the suspension is satisfactorily removed, or (2) that its selling and servicing agreements be terminated.

Mr. Chairman, I believe that I have given the subcommittee sufficient background information about Fannie Mae and its seller-servicer relationship to assist it in comprehending my response to specific matters about which I have been requested to testify.

I was asked to discuss the mortgage situation in New York City, including present arrearages, how present arrearages compare with the peak period of arrearages, the number of FHA and VA mortgages outstanding, and what percentage they comprise of the total in New York City market.

I have no information as to the number of loans owned in New York City by investors other than Fannie Mae and Ginny Mae or to the arrearages of such loans, nor do I know how many FHA and VA loans are outstanding in the city.

As for Fannie Mae, the corporation owned 15,303 mortgages in New York City on March 25, 1972, of which 3,805, or 24.86 percent, were in arrears. Included in these arrearages were 1,079 loans, or 7.05 percent, that were in foreclosure. The New York City area as defined by these data include Manhattan, Staten Island, Bronx, Long Island City, Brooklyn, Flushing, Jamaica, and Far Rockaway.

I would like to note that these data are from our Washington office computer and are different from other arrearage data reported in my statement since (1) The servicers update the status of loans until monthend in reports to the regional office, and (2) their reports to the region do not separate loans by geographical area.

For example, Inter-Island Mortgage Corp. regional reports include both New York and Puerto Rican loans. I would like to note, too, that the delinquency rate reflects the cumulative effect of the number of loans in foreclosure, including arrearages up to 3 or more years. The time required to complete foreclosures in New York City is discussed later in this testimony.

It is difficult for me to compare present arrearages with peak arrearages in New York City because of the cumulative effect of these

foreclosures. Also, our computer records, as of this date, do not have these comparative data, and our regional reports from servicers operating in New York City include loans located outside the city area.

I have prepared the following comparative data from regional office reports for New York City showing the Fannie Mae total loans, number in arrears, excluding foreclosures, and percentage of such arrears as of March 31 and September 30 for the years 1969, 1970, and 1971, and for March 31, 1972. These data represent loans serviced by Fannie Mae servicers that do business in New York City, but they also include the loans serviced by these companies that are outside the city.

In 1969, March, we owned 5,674 loans in New York, of which 874 were in arrears for 15.4 percent delinquency. September of that year, we owned 9,169 loans; 752 were in arrears for 8.2 percent delinquency.

In March 1970, we owned 12,927 loans; 1,299 delinquent for 10 percent. September, we owned 16,048 loans; 1,006 for 6.3 percent.

In March 1971, we owned 17,384 loans, 1,700 in arrears for 9.8 percent. September, 17,395; 1,707 in arrears for 9.8.

In March of 1972, 17,596; 1,433 in arrears, 8.1.

I might call to the committee's attention that the 17,596, as reported at March 31, does not agree with the 15,303 reported earlier which came from our computer. This difference, as I mentioned relates to the geographic areas and the difference in the counts.

Fannie Mae loans in New York City were sold to and are serviced for the corporation primarily by mortgage companies, although the term "mortgage" does not appear in the names of these companies. I've been advised that the New York State laws prohibit the use of the word "mortgage" in the name of companies operating in New York.

The North New York Savings Bank in the Bronx and the Green Point Savings Bank in Brooklyn presently service, respectively, 209 and 39 Fannie Mae loans. All other Fannie Mae loans in the city are serviced by mortgage companies.

For the past 3 years, the time required to complete a Fannie Mae foreclosure in New York City has varied from approximately 7 months to up to 3 years. Fannie Mae considers a foreclosure unfinished until completion of any necessary possessory actions and the processing of the claim under the FHA mortgage insurance. The time requested to foreclose is the result of one or more of the following factors:

New York has the most exacting and complicated foreclosure procedures of any jurisdiction among the 16 where our office operates. It is a court foreclosure which requires the determining and naming as defendants of any tenant and all lienholders, and an attempt to make personal service upon each one. Under favorable circumstances, the foreclosure is completed in 7 months. Common names, evasion of service, disappearing parties, and the like, can greatly delay the proceedings. Where the property owner cannot be located there is a complex procedure for publication to obtain jurisdiction.

FHA regulations require that foreclosed properties be vacant or that occupancy be acceptable to the FHA insuring office before Fannie Mae can convey title and custody to the FHA. The shortage of housing for low and moderate income persons is so acute that the courts frequently postpone possession for 3 months, and there have been as many as nine postponements.

This is particularly true where the occupant is elderly, in ill health, on relief, or has a large family. There have been instances where the court officer failed to act even when the court granted the writ of possession. With increasing frequency, attorneys appear to seek postponement of removal.

Our statistics show the rapid increase in our New York City portfolio. Until late 1969, one law firm handled our foreclosures. Now we use eight on a regular basis, and three more to help with the overflow. The unusual difficulties which we have encountered during the last several years require more legal services over a prolonged period. Thus, some of our counsel have accumulated caseloads beyond their capacity to handle expeditiously.

The subcommittee requested specific information about certain mortgage companies which do business with Fannie Mae in the New York City area.

The Nationwide Holding Corp. was approved by Fannie Mae as a seller only on March 31, 1972. We have done no business with this firm to date.

Spartacus Securities, Inc., was approved as a Fannie Mae seller-servicer on January 6, 1970. This firm has had no delinquency or other problems and is presently servicing only 49 loans for Fannie Mae.

Hogar Funding Corp., approved as a Fannie Mae seller on August 5, 1969, and as a Fannie Mae servicer on December 3, 1969, presently services 160 Fannie Mae loans. This firm has had no problems in selling mortgages to Fannie Mae, but has had some problems with delinquencies. The delinquency ratio has ranged from a low of 3.6 percent in July 1970, to a high 16.9 percent in June 1971. Hogar reported a delinquency ratio of 10.1 in May 1971, and 7.7 in June 1971. The correct ratios for these months were 14.7 percent and 16.9 percent, respectively, according to an audit made in September 1971. Hogar explained to the satisfaction of the region that the procedures which resulted in the erroneous reports were corrected.

Inter-Island Mortgagee Corp. was approved as a Fannie Mae seller and servicer in October 1964, but did not begin doing business with Fannie Mae until March 1966. On April 30, 1971, a subsidiary, Inter-Island Mortgagee Corp. of Puerto Rico, was approved only as a seller, with servicing done by the parent company.

From the inception of servicing, Fannie Mae has made numerous contacts with the parent company by telephone, correspondence, and in person, principally due to the number of loans delinquent. On two occasions, the regional office placed the company on probation when delinquencies were considered unacceptable and removed the probation when the level of delinquencies was reduced. Those occasions were from May 1967 until April 1968, and from April 1969 to July 1971. Inter-Island was audited in November 1966, December 1967, and February 1971. The 1966 audit reported late reports and remittances. The 1967 audit reported that the servicer accepted payments and subsequently billed late charges contrary to FHA requirements; also that moneys collected were not deposited as early as Fannie Mae requires.

The 1971 audit again reported late charges billed improperly, tax penalties improperly charged to mortgagors, and 10 loans delivered for purchase that did not conform to Fannie Mae requirements as to

payment of matured installments. Inter-Island corrected or explained all of the above audit findings to the satisfaction of the region.

I might add, at this point, Mr. Chairman, that Inter-Island Mortgage Corp. had its approval as a mortgagee suspended by the FHA on May 5, 1972. Federal National Mortgage Association, acting for itself and as agent for the Government National Mortgage Association, suspended Inter-Island Mortgage Corp. and its subsidiary, Inter-Island Mortgage Corp. of Puerto Rico, on May 10, 1972.

On May 11, Inter-Island filed suit for a temporary restraining order against suspension by FHA, and a hearing was held before Judge Parker at 4:30 p.m. on that date.

The following day, Judge Parker signed a temporary restraining order lifting the suspension and ordering HUD to hold a hearing on May 17. Inter-Island was ordered to appear at the hearing.

The temporary restraining order is effective until May 22, and a hearing is scheduled for the same date on Inter-Island's request for a preliminary injunction. No temporary restraining order was sought against Fannie Mae's action of May 10, and therefore that action stands and Inter-Island remains suspended by Fannie Mae. Today, we began an audit of Inter-Island and its records, and we will know the results of that probably within about 30 days.

Dale Funding Corp. was approved as a Fannie Mae seller and servicer on December 6, 1965. Prior to 1969, the servicer's delinquency ratios were high, but the number of loans serviced never exceeded 87. Dale was placed on probation for high delinquencies from April 1969 to March 1970, and again from April 1971 to September 1971.

On both occasions, the servicer reduced delinquencies. Dale was audited in March 1968 and again in December 1971. The 1968 audit disclosed nothing of significance. The December 1971 audit included several findings related to the manner in which the servicer's records were maintained. The audit concluded that the servicer's performance was inadequate.

A lack of adequate training of personnel and problems with the computer service leased by Dale were cited as causes of the conditions noted in the audit. The audit findings were referred to the servicer for comment as to proposed corrective action. The servicer agreed at the time of audit to take corrective action. Clearance of the audit findings is still pending.

I might mention, at this point, that the service bureau that was used by Dale has been a service bureau that's also been a problem to other servicers who've made changes.

Eastern Service Corp., was approved as a Fannie Mae seller and servicer in June 1960, but was inactive until January 1967. Except for high delinquency ratios, Fannie Mae has had only a few minor problems with this servicer. Many contacts by telephone, letters, and conferences with this servicer were necessary because of the delinquency problem. Our records show that delinquency ratios were acceptable at times and unacceptable at other times.

Because of an unacceptable ratio of delinquencies, Eastern was on probation from April 1969, to December 1969. Eastern was scheduled for a conference in the regional office on April 11, 1972, to discuss its delinquency problem and other selling and servicing matters. This meeting was canceled when we learned of the grand jury indictments against principals of the firm.

On April 3, 1972, with Fannie Mae Washington approval, we suspended the privileges of Eastern to obtain further Fannie Mae commitments. A Fannie Mae audit of Eastern began on April 6, 1972, and is still in progress.

Previous Fannie Mae audits were made in November 1967, and December 1970. The 1967 audit disclosed no significant problems. The 1970 audit contained 14 findings and the auditor classified the servicer's performance as marginal.

The auditor attributed the decline in the servicer's performance to a substantial increase in loans serviced with attendant problems in maintaining an adequately trained staff.

The findings included matters such as late remittances to Fannie Mae, late charges billed after acceptance of mortgage payments, mortgagor ledger cards not maintained in the manner required, payments in full not processed promptly, minor errors in loss payable clauses of hazard insurance policies, improperly worded collection letters, failure to maintain controls on foreclosures, signed duplicates of mortgage bonds not identified as copies, and nine files that were incomplete as to evidence of credit underwriting.

The servicer acknowledged these weaknesses and stated to our satisfaction the corrective action needed to clear these findings.

Springfield Equities Limited was approved as a Fannie Mae seller in June 1966, and as a Fannie Mae servicer in January 1968. In April 1969, Springfield was placed on probation because of high delinquencies. In June 1969, the firm's selling privileges were suspended because of continued increases in the delinquency ratio. The suspension was lifted in October 1969, when the delinquency problem was resolved to our satisfaction.

In September 1970, an audit of Springfield disclosed that the servicer's procedures needed improvement and that there was a need for more personnel and space. The findings involved loans delivered to Fannie Mae that were not within the acceptable tolerances as to payment of matured installments, tax penalties charged to mortgagors, late payments collected after acceptance of late monthly installments, foreclosure control inadequate, mortgagors improperly charged for tax search fees, insurance loss settlements not documented adequately, date transaction posted rather than date of transaction shown on ledger cards, and funds not sent to Fannie Mae promptly. All of these findings were cleared by the servicer and no further problems were experienced with this firm.

Jacksonville National Bank purchased the servicing account of Springfield subject to our approval, and Fannie Mae approved such transfer of servicing effective January 25, 1971.

United Institutional Servicing Corp. was approved as a Fannie Mae seller and servicer in February 1967. Two months after approval, this company accepted the servicing of 636 Fannie Mae loans which had been serviced previously by U.I. & I. Funding Corp., its parent corporation.

United Institutional was very active in selling to Fannie Mae and during the next 4 years the number of loans serviced for Fannie Mae increased to 6,084. The performance of United Institutional was often marginal, and many contacts by telephone, letter, and in person were made by Fannie Mae in an effort to obtain improvements. The

principal problems were high delinquency ratios and inadequate control of foreclosures.

Audits were performed in August 1968, February 1970, and February 1971. The 1968 audit included nine findings, none of which was considered significant. However, the audit did include an examination of 35 loans submitted to Fannie Mae during the preceding 2 years, and all of these loans were either in foreclosure or at least 90 days delinquent as of the date of the review.

At a conference with the servicer in December 1968, the findings were discussed and the servicer was notified that his performance was considered inadequate. In January 1969, the servicer further advised Fannie Mae that it had corrected all the conditions cited in the audit and had hired an additional experienced man.

In April 1969, United was placed on probation because of inadequate control of foreclosures and high delinquency ratios. This status continued until the Fannie Mae servicing account was sold to Jacksonville National Bank, with the concurrence of Fannie Mae, in February 1971.

The 1970 audit included nine findings which were not considered particularly serious and were subsequently cleared in June 1970. The 1971 audit disclosed 20 findings, the most serious of which were:

Individual records not reconciled to control accounts; instances of mortgage payments applied to the incorrect account; dishonored checks not reversed on mortgagor's records; advances for payment of taxes and insurance not posted to mortgagor's records in all instances; tax payments charged to wrong mortgagor; past due tax bills not paid; tax receipts not filed correctly; instances of partial installments collected without followup for additional amount due or other application of these funds; hazard insurance policies not in files nor any other evidence of adequate insurance coverage; failure to analyze and adjust escrow accounts when needed; and inadequate followup on uncleared disbursement checks.

On October 31, 1969, a conference with United was held in the regional office. Mr. Edwin Katz, chairman of United's board, stated that United did not perform any underwriting function but merely forwarded the mortgage application to FHA. Mr. Katz stated "it is well worth the risk for the Government to provide 19 families with homes as against the one that results in foreclosure."

We advised Mr. Katz that Fannie Mae expected United to underwrite loans rather than just pass them on to FHA and that there were special Government programs designed for families who were poor credit risks to obtain a home. We gave United until January 1970, to show progress in reducing the delinquencies.

In February 1970, Mr. Katz stated the usual collection problems at Christmas prevented United from showing a reduction in delinquencies. We extended the period in which to show improvement until April 1970. In April, Mr. Katz advised that a postal strike in March and the illness of his collection manager had resulted in the improvements made in February being reversed in March.

Beginning in May 1970, delinquency reports from United showed continued slight reductions through October 1970. In November 1970, Fannie Mae reviewed the status of individual loans reported delinquent by United. The review disclosed that many loans under

liquidating plans were not reported delinquent as required by Fannie Mae.

In November, we advised United by letter of the inadequate delinquency reports. Our letter stated that liquidating plans were improperly excluded from delinquency reports and that only the forbearance plans should have been excluded. The delinquent report as corrected by Fannie Mae showed 18.8 percent delinquency ratio compared to 7.9 percent reported by United.

On December 21, 1970, we advised Mr. Katz that United had been given every opportunity to correct its unsatisfactory performance and that we were recommending the suspension of its selling privileges.

Mr. Katz asked for 60 more days in which to show improvement and stated he would arrange the transfer of servicing if United did not show improvements in this period. During the 60 days he proposed to hire more collection personnel, give closer personal attention and take other actions if needed to show improvement.

When we approved Jacksonville National Bank as a seller-servicer on December 29, 1970, the officers of the bank stated that they were expanding nationally. We mentioned that United had indicated a possible transfer of servicing.

On January 8, 1971, the officers of the bank came to the Fannie Mae regional office and advised that they had been in contact with United and were considering the purchase of the Fannie Mae servicing. They wanted to ascertain if we would approve the transfer of servicing if it were purchased by the bank. We advised that we thought the transfer could be approved, and we later approved such transfer effective February 25, 1971.

In February, we noted 12 loans recommended by United for foreclosure on which no payments were made. Since Jacksonville National Bank would be required to supervise the foreclosures without compensation and because we thought that the foreclosures were caused by United's failure to either underwrite or service the loans properly, we required United to repurchase these loans.

Fannie Mae policy provides that when a seller misrepresents facts in selling a loan to us, the seller may be required to repurchase such loan at the same percentage of unpaid principal balance as was paid by Fannie Mae when the loan was purchased.

Although we had no evidence of a misrepresentation by United, we used this Fannie Mae policy as a reference in establishing the amount required to repurchase these loans.

The transfer of servicing to Jacksonville National Bank was approved with the understanding that all deficiencies disclosed in the 1971 audit, would be corrected by Jacksonville National Bank.

Jacksonville National Bank was approved as a seller and servicer in the northeastern region on December 29, 1970. Prior to this approval, officers of the bank discussed with the region the proposed acquisition of Springfield Equities servicing under an agreement that Springfield would act as an agent of the bank in servicing loans.

The bank officers explained that for legal reasons the bank could not operate in its own name or that of its parent company in New York City. On January 25, 1971, the 923 Fannie Mae loans formerly serviced by Springfield were transferred to the bank.

On January 8, 1971, officers of the bank called at the regional office to inform us that the Jacksonville National Bank was negotiating for

the purchase of the Fannie Mae servicing account of United Institutional Servicing Corp. We advised the bank that we thought the transfer could be approved.

Subsequently, the bank submitted its formal request for the transfer which was approved on February 25, 1971, and the 6,084 loans serviced by United were transferred to the bank. The bank assumed all responsibility for the servicing and advised that extensive efforts would be made to correct all unsatisfactory conditions noted by the bank and by Fannie Mae.

Since the transfer, the bank has advised by reports and in person that extensive efforts were required by it to identify and correct deficiencies existing at the time of the servicing transfer to the bank. It is apparent to us that the Jacksonville National Bank has made considerable progress in correcting prior deficiencies since acquiring the servicing account of United Institutional Servicing Corp.

Occasionally, the Fannie Mae regional office notes conditions that may be in violation of FHA regulations. In such cases, if the violation is considered serious, the region refers this information to our Washington office for transmittal to the HUD compliance organization. The region is not advised of the disposition of these cases.

In 1970 and 1971, the region referred four cases which indicated that the mortgagors of record might be nonexistent or "phantom mortgagors." Also in 1971, the region referred five cases involving 17 loans in which titles to properties were acquired apparently for the purpose of collecting rents during the time required to foreclose the property. This latter practice is sometimes referred to as "equity skimming."

Mr. Chairman, this concludes my prepared statement. I and my two associates will try to answer any questions you and other members or committee counsel may have.

Senator HART. Mr. Duncan, before we begin to develop some of the questions for our general understanding of Fannie Mae, if your two associates, Mr. Reed and Mr. McCarron, are going to, or may answer some questions, why don't we administer the oath to them, and we can proceed.

(Mr. Reed and Mr. McCarron are sworn in by the chairman.)

Senator HART. Mr. Duncan, thank you very much for your testimony. We have a series of questions here, some of which I think may require repetition of some of your testimony.

But rather than relying on my memory and to make sure, I will ask it anyway.

HUD has a mortgage approval process. Does Fannie Mae have an approval process in addition to that?

Mr. DUNCAN. Yes, sir. We enter into a formal selling agreement and a formal servicing agreement with each firm with whom we do business.

Senator HART. Now, is it possible that you will approve a company for the sale of mortgages to Fannie Mae without approving the servicing?

Mr. DUNCAN. Yes, sir. We do have some firms who do not ask to be approved as servicers. We have some that we may not approve as servicers because they do not have the facilities or the experience to indicate that they can properly service them.

Senator HART. What are the qualifications that a company has to demonstrate to you to have them qualify as a seller-service?

Mr. DUNCAN. As a seller of FHA mortgages, we require them to demonstrate that they have been approved by FHA as a mortgagee by furnishing a copy of the FHA mortgagee certificate. We require them to show us that selling mortgages to us is related to their principal business, or a major portion of that business.

As far as servicing, we use the same criteria, except that we also require them to demonstrate that they have the necessary equipment and other facilities, plus the experienced personnel, to understand FHA and Fannie Mae requirements to properly service mortgages.

Senator HART. Right now you are not limited to FHA mortgages alone. You buy, do you not, VA mortgages?

Mr. DUNCAN. Yes, sir. We do buy VA mortgages. The approved seller of VA mortgages does not have to be an approved FHA mortgagee.

We will approve a seller of VA mortgages if it is a supervised lender, such as a bank, or a savings and loan association or if it otherwise has \$100,000 net worth, and is engaged in the mortgage business.

Senator HART. Is my understanding correct that the law requires that the mortgage companies hold stock in Fannie Mae as a condition to doing business with them?

Mr. DUNCAN. At the present time, the FNMA Character Act says that the corporation shall at all times require each servicer of its mortgages to own a minimum amount of common stock of the corporation, measured by its stated value.

Such minimum amount shall not exceed 2 percentum as determined from time to time by the corporation with the approval of the Secretary of Housing and Urban Development, of the aggregate outstanding principal balances of all the mortgages of the corporation which have been purchased subsequent to September 1, 1968.

The amount of stock required to be held by each seller or servicer will vary because of the changes that have occurred in our retention requirements. We have had several changes since 1968 in the amount of stock that is required.

Senator HART. But the obligation of the company to hold stock in Fannie Mae as a condition of doing business is established by the law still?

Mr. DUNCAN. Yes, sir.

Senator HART. Are mortgage company officers directors of Fannie Mae?

Mr. DUNCAN. There are three directors on the present Board, who are also in the mortgage business.

Senator HART. Perhaps I should ask to advertise my further ignorance, how many directors are required by law?

Mr. DUNCAN. The Fannie Mae Board consists of 15 members, 10 of whom are elected by the stockholders and five of whom are appointed by the President of the United States.

From those five, three must be from the real estate, homebuilding, and mortgage lending industries.

Senator HART. Now, before you do business with seller's service, are they required to hold an errors and omissions insurance policy, or some other kind of policy?

Mr. DUNCAN. Yes, sir. We require an errors and omission policy.

Senator HART. Would you just give us an indication of what such a policy covers?

Mr. DUNCAN. I am looking at one of the mortgage companies that is under the discussion here—Dale Funding—as a matter of illustration. It carries an errors and omissions coverage in the amount of \$50,000 and \$150,000.

This coverage, I think, gives us protection against the clerical errors and this type of thing—fraudulent errors—and things that may happen within the servicing operations.

Senator HART. What is the 50 and a 100?

Mr. DUNCAN. The 50 is for each individual person, as I understand it, and the 150 is the total.

Senator HART. Do you know whether the northeast region has ever made a claim under that type of policy?

Mr. DUNCAN. Not since I have been there. No, sir.

Senator HART. In your testimony, you described Fannie Mae as a private corporation, privately financed. But it does have the authority to borrow from the Treasury of the United States?

Mr. DUNCAN. Yes, sir. We have the backup authority of \$2¼ billion that we can borrow from the Treasury. We just hope that we never have to use it.

Senator HART. I was going to ask if you ever had to. We have had some testimony, but I'm sure that from you we could have an even more knowledgeable description of how the Fannie Mae auction procedure works.

Mr. DUNCAN. Our auction—our free market system began on May 6, 1968. Periodically, and at the present time biweekly, we issue a notice to all approved sellers that on a certain date we will have available for bidding a specific amount of money, or an unlimited amount of money, that they may bid for in our auction system.

Now, by bidding for this, they will bid on the basis of a certain yield to Fannie Mae. At one time it was on the basis of certain price; for example, 96 or 97. At the moment, it is based on the yield rather than the price.

I cannot tell you how the selection of the accepted bids is made, but there are two classes of bid that can be entered into. One of them is on a competitive basis, and one is on a noncompetitive basis.

The competitive bids are accepted on the basis of whichever ones fall within the range of the committee's determination. The non-competitive bids are all accepted; they are accepted at the average price for the competitive bids that were accepted.

Our acceptance of the bids gives the bidder a money commitment for a period of 4 months in which it can deliver any FHA-insured or VA-guaranteed mortgage. We do not specify a particular mortgage in this type of commitment.

We charge, of course, certain fees for doing business with us under their system.

Senator HART. What is the relationship between Fannie Mae and Ginny Mae?

Mr. DUNCAN. At the time of separation of Fannie Mae and Ginny Mae in 1968, Ginny Mae retained a portfolio of loans that was not considered in the secondary market category.

Fannie Mae, since it did retain the servicing capabilities, entered into an intercorporate agreement with Ginny Mae whereby Fannie Mae will carry on the activities of buying and selling and servicing the Ginny Mae loans for it.

I might mention that this does not extend to the Ginny Mae mortgage-backed security program for which Fannie Mae has no responsibility.

Senator HART. So Fannie Mae has no responsibility for supervising or servicing mortgages and pool-back securities program?

Mr. DUNCAN. That is correct, sir.

Senator HART. Do you notify, as a matter of regular practice, Ginny Mae of trouble with a seller-servicer?

Mr. DUNCAN. This I understand is done through our Washington office. When we have a problem, we call it to the attention of the Washington office. I understand that this is coordinated with Ginny Mae.

Senator HART. I think here we do get into aspects of your prepared testimony, but to be certain for the record, let me ask did you send any information to Fannie Mae about troubles you were experiencing with Eastern, or United, or Inter-Island?

Mr. DUNCAN. May I ask, are we talking about earlier than the date of our suspension, or are we talking about at the date of suspension?

Senator HART. At any time.

Mr. DUNCAN. At the time we learned of the indictments of Eastern employees, we did recommend to our Washington office that we suspend their privileges immediately.

Senator HART. With respect to Inter-Island, had there been any communications with them?

Mr. DUNCAN. Yes. At the time that Inter-Island was suspended, we were in touch with our Washington office in connection with this.

Senator HART. My question was whether you sent information to Fannie Mae. My intention was to ask whether you sent any information to Ginny Mae.

Mr. DUNCAN. I did not send any information from the regional office direct to Ginny Mae. However, I understand that our Washington office furnishes the same information I furnish to them—substantially the same information.

Senator HART. What about audit reports, whether on problem children or otherwise. Do you send copies of your audit reports to Ginny Mae?

Mr. DUNCAN. We do not send them from the regional office. I understand, of course, that they are sent from the Washington office. I am told that this is what happens. I am reasonably sure that this is correct.

Senator HART. How about sending such audit reports to HUD? Do you, or does Washington?

Mr. DUNCAN. Again, our Washington office has this responsibility for sending the reports, and I understand that it sends the reports to HUD.

Senator HART. Is there any transmittal of the audit reports to the Veterans' Administration?

Mr. DUNCAN. My answer on that would have to be qualified to the extent that I think the same thing happened with VA as happened with FHA. They are given a copy of the report.

Senator HART. Now, HUD, as I understand it, has auditors also. Do your auditors coordinate their activities with the auditors from HUD at any time?

Mr. DUNCAN. I do not recall any such coordination since I have been there.

Senator HART. When you get an audit that reaches some conclusions, how do you treat it? Is that viewed as public information to be made available to the Federal agencies routinely for regulatory purposes? Or is it private commercial intelligence?

Mr. DUNCAN. We consider our audit reports, as far as I understand it, and I have to qualify this because I am not acquainted with what our director of audits does, usable generally for Fannie Mae purposes and not for public purposes. We disseminate this information to HUD or the VA, as the case may be.

Senator HART. How many audits are we talking about in the northeast region?

Mr. DUNCAN. Our audits at the moment are probably occurring about once every 3 years for each service.

Senator HART. Of each servicer?

Mr. DUNCAN. Yes, sir. This is an average figure, of course.

Senator HART. You told us in your testimony that when you get a mortgage from a seller, that the file does not include the credit report or other background information from the underwriter. Is it fair to conclude that once the Government guarantee on an insurance certificate attaches, you accept the mortgages as good on their face?

Mr. DUNCAN. Yes, sir. Our files will include a copy of the FHA mortgage certificate of insurance or the VA guarantee certificate, and we rely on that for proper credit underwriting.

Senator HART. Are the audits that Fannie Mae undertakes limited to the servicing and the servicing recordkeeping aspects of the company, or do they go to an evaluation of the company's underwriting practices?

Mr. DUNCAN. I know of no audit in my region since I've been there that undertook the audit of the credit underwriting. I don't think they have done this.

I have cited one instance which noted a lack of copies of credit reports. This was because we do require the files to remain intact in the event that we sell a mortgage to a private investor, and he may want to look at this underwriting information.

Senator HART. Mr. Blum?

Mr. BLUM. Mr. Duncan, on page 9 of your statement, you said that roughly 25 percent of the mortgages that you hold in the New York City market are in arrears. Would you mind giving us a definition of "in arrears"?

Mr. DUNCAN. Yes, sir. In the figure that we quote there of 24.86 percent, we are including all loans in which one or more installments are past due, including those that are in foreclosure.

Mr. BLUM. How does that number compare with Fannie Mae mortgage experience and several other markets in your region, such as Philadelphia or Pittsburgh?

Mr. DUNCAN. I do not have exact comparative data on this. The figure that I am quoting here is as of the 25th of the month, which is a figure that comes out of our computer reports, and I do not have the computer reports for other areas.

But as of the end of the month, from what our regional reports state, we are not having quite as big a problem, but we are having problems, in other inner city areas, the larger city areas.

Mr. BLUM. Perhaps the problem in New York is somewhat greater because of the difficulty in getting rapid foreclosure?

Mr. DUNCAN. This is a part of the problem, yes.

Mr. BLUM. Is the delinquency experience somewhat parallel?

Mr. DUNCAN. Somewhat parallel. Yes, sir.

Mr. BLUM. Would you mind expanding a little bit on the comment that delinquency ratio reflects the cumulative effect of loans and foreclosure? That may be a little hard for people to understand.

Mr. DUNCAN. Yes, sir. Let's say on January 1 of 1970, we put a loan in foreclosure, and as of today, it is still there. This loan still counts as a delinquent mortgage.

In other jurisdictions, we may have already completed the foreclosure and taken it out of our account. That is why it would not have counted on that statistic on arrearage.

The longer it stays in foreclosure, the more cumulative the effect it has on the statistics.

Mr. BLUM. As long as it sits in foreclosure, in other words, it counted as an arrearage, and that will push the percentages up quite high?

Mr. DUNCAN. Yes.

Mr. BLUM. Once it is paid off by FHA, it ceases showing on your books at all? Is this correct?

Mr. DUNCAN. Right.

Mr. BLUM. So at that point, assuming you were paid off by HUD, the delinquency ratio would drop sharply?

Mr. DUNCAN. That's right.

Mr. BLUM. What is the definition, just for the record, of a loan in foreclosure?

Mr. DUNCAN. A loan is placed in foreclosure when the attorney files a complaint.

Mr. BLUM. So as a practical matter, that might be any loan that is in excess of 90 days in arrears on which legal proceedings have been started.

Mr. DUNCAN. Yes, sir.

Mr. BLUM. And do you——

Mr. CHUMBRIS. Mr. Blum, will you yield the floor so I can cite this case for the record?

On page 1, you state, "My comments on the mortgage financing in the New York City area will be limited to FHA home mortgages which are defined to one in four family units."

Now, when you refer to the statistics that Mr. Blum is getting to now in New York City, are you limiting to that particular point only?

Mr. DUNCAN. Mr. Chumbris, I believe that those statistics may include VA mortgages as well as FHA mortgages.

Mr. CHUMBRIS. But I would like to get clear for the record, are we talking about low-income financing now, or are we talking about total FHA financing?

Mr. DUNCAN. We are talking principally about sections 203, 221(d)(2), and some 223(e) mortgages; we are not talking about the low-income types of mortgages. Very few 235's are in this area.

Mr. CHUMBRIS. Thank you very much. Thank you, Mr. Blum.

Mr. BLUM. Most, in fact, Mr. Duncan, are under section 203, are they not?

Mr. DUNCAN. This is my understanding, yes.

Mr. BLUM. 203 is the FHA program that most people in suburbia would know about, isn't it?

Mr. DUNCAN. Yes, it is.

Mr. BLUM. Is it correct to say that once Fannie Mae is paid by HUD, the loan is no longer on the books? I think I just asked you that.

Mr. DUNCAN. Yes, sir.

Mr. BLUM. It washes out of your computer altogether?

Mr. DUNCAN. Yes.

Mr. BLUM. Do you know how many New York City loans HUD has paid off on for Fannie Mae?

Mr. DUNCAN. No, sir; I do not know that.

Mr. BLUM. Shortly after the indictment of Eastern Servicing, HUD officials in Hempstead suggested that total foreclosure loss in New York City was \$24 million. I assume that that must have referred to the amounts that HUD paid out in claims as of that date.

Can you give us a rough dollar estimate of the amount of claims that might be expected on the Fannie Mae mortgages now in foreclosure that have not been paid off?

Mr. DUNCAN. Well, assuming on the 1,079 loans that we mentioned were in foreclosure, the average mortgage in New York City would range somewhat between \$15,000 and \$20,000.

So a rule of the thumb on this, I would say that we probably have somewhere now in the neighborhood of \$20 million worth of mortgages within the processes of foreclosure.

Mr. BLUM. Now that the numbers make sense, we have to add your \$20 million to the \$24 that HUD has already paid on because that would have dropped out of your statistics?

Mr. DUNCAN. I do not know how HUD got their figures, but I would assume this would be correct.

Mr. BLUM. And your Fannie Mae holdings of New York City mortgages represent only a portion of the mortgages that were underwritten in New York City?

Mr. DUNCAN. That is right.

Mr. BLUM. Do you regularly furnish HUD with information about the number of loans in foreclosure by area or by company?

Mr. DUNCAN. No, sir; we do not.

Mr. BLUM. HUD's information on foreclosure comes from notification mailed by the mortgage company to the HUD insuring Office? Is that correct?

Mr. DUNCAN. That is right.

Mr. BLUM. If a problem in these mortgages is bad underwriting, that is somebody not doing the FHA requirements, isn't it likely that mortgages would get into trouble no matter how good a job that you do getting the servicers to collect?

Mr. DUNCAN. I think that that is a fair assumption. You cannot expect the mortgagor to carry a burden of a mortgage that he could not have possibly been able to handle originally. Once he gets mortgage that is beyond his capability, it does not improve with age.

Mr. BLUM. So the core of the problem is in the underwriting. If you have very serious servicing problems, can you expect that there will be some difficulties in the underwriting side?

Mr. DUNCAN. I don't know how to answer that question to be sure that I answer it correctly. I could not necessarily assume because of high delinquencies that there were underwriting problems. Generally you might consider that this might be a factor involved in it; yes.

Mr. BLUM. It is possible, in other words, that the mortgage companies simply did not make any effort to collect? That might be the reason. It is also possible that the loans were not very good to begin with, so that all of the efforts to collect in the world would not have worked.

Mr. DUNCAN. These are contributing factors. Of course you have economic factors which could have created a problem in this area.

Mr. BLUM. For example, the homes might be in foreclosure, and that could be an explanation that did not relate either to the underwriting or the servicing?

Mr. DUNCAN. Right.

Mr. BLUM. The law requires that Fannie Mae buy its mortgages at par or at a discount; is that correct?

Mr. DUNCAN. The law does not prohibit our paying a premium for a mortgage, but we do not as a matter of FNMA policy.

Mr. BLUM. Do you have a feel as to whether or not there was a significant discount in the market during the years of peak activity in New York—1968, 1969, and 1970? Were there pretty good discounts for most of the mortgages you bought? Do you have any feel for that?

Mr. DUNCAN. On May 7, 1968, the interest rate was 6¾-percent. On January 24, 1969, it went to 7½. And on January 5, 1970, it went to 8½.

The amount of discount would relate to the interest rate and the market situation as of that particular date.

My recollection, without referring to a particular record, is that just before we went to an eight and a half percent rate, the discounts were rather deep.

Mr. BLUM. What would it be, six, seven, or eight points?

Mr. DUNCAN. Around seven or eight points.

Mr. BLUM. Would that seven- or eight-point discount have been sufficient to insure that you would not lose money on a foreclosure? That is, that you would recapture that discount and other expenses of foreclosure?

Mr. DUNCAN. On that particular mortgage, with a 7- or 8-percent discount, my assumption would be that we could recover, through the discount, sufficient to offset all the losses that we would incur otherwise.

Mr. BLUM. Would you mind explaining for the record the concept of yield to maturity, and what that discount means in terms of interest rate?

Mr. DUNCAN. Generally, in the prices of our mortgages, the yield is computed on the assumption that, a 30-year term mortgage, will be paid off within 12 years. This is an average life expectancy in the mortgage industry. A 30-year mortgage will ordinarily be paid off within a 12-year cycle.

The mortgages that we deal in are priced accordingly on that basis. Fannie Mae borrows its money according to the market yield at the time, and in all probability, at the time of those deep discounts, we were also paying a high price for our money in the market.

Now when a mortgage goes into foreclosure, Fannie Mae receives the note rate on the FHA mortgage up until the date that foreclosure is started.

From then until we complete the foreclosure, and obtain our reimbursements from FHA, we are reimbursed at the FHA debenture rate, which is generally one to two, or sometimes three points below the note rate.

Then on the foreclosures, we have to pay at least one-third of the foreclosure expenses that are incurred during foreclosure.

So the fact that we have a discount does not, in itself, mean that we make a profit on the mortgages that go into foreclosure.

I would say overall, on an average, we probably come out fairly close to even when we consider the various type of mortgages in foreclosure.

Mr. BLUM. Is it true, that if legal costs escalate sharply, they eat up the amount that you capture on yield to maturity, and possibly put you in a loss position?

Mr. DUNCAN. Yes. Legal costs, foreclosure costs, add to the question of whether we do or do not make any profit.

Mr. BLUM. Do you think on balance that Fannie Mae will make or lose money on the New York situation?

Mr. DUNCAN. I think on balance we would probably come out at least even, or better. This is purely a guess. I do not have any basis for it. It is only a guess.

Mr. BLUM. The fact that it will not come out ahead will probably be based on the great delays that you are experiencing on foreclosures in New York; isn't that correct?

Mr. DUNCAN. This could add to it; yes.

Mr. BLUM. When Fannie Mae was a Federal agency, the attorneys were selected on a patronage system. That system, does that still prevail?

Mr. DUNCAN. The attorneys that we select at the regional office level are referred to us by our Washington office. Since we also function for Ginny Mae, it is my understanding that we use the same attorneys that Ginny Mae uses, and I would suspect that we are still using the same system on that.

Mr. BLUM. Aren't some of the New York City delays attributed to the backlog that developed when the administration ran into trouble in selecting its patronage attorneys?

Mr. DUNCAN. We had a delay in appointment of a few counsel in early 1969 or mid-1969 so that we did build up a few cases in our inventory. Possibly this may have contributed to the overload of cases of some of our attorneys, to what extent I am not certain.

Mr. BLUM. What do foreclosure expenses run in New York City?

Mr. DUNCAN. A foreclosure fee for an attorney is \$375 if he does not run into a problem of service of process. If he had to go to publication, there is an additional \$100.

Mr. REED. That varies somewhat. The initial fee in this area is \$350, and as Mr. Duncan has stated, if you run into absent defendants, the costs will run up from \$75 to \$150.

In the event of contest, which we sometimes run into, it can run higher. That is the foreclosure cost. That does not include possessory action if needed.

Mr. BLUM. What might the cost of the action to take possession run?

Mr. REED. We start with a basic fee of \$100, but if there is a successive continuation, or postponement of the action, and the attorney may have to get a moving van and actually supervise the moving, it can run up more.

There is no real standard on that. I would say that it would usually run somewhere between a hundred and \$300, and in unusual cases, it could skyrocket. That does not include the costs as distinguished from the fees.

Mr. BLUM. We can go then to a point of the foreclosure costing as much as a thousand dollars?

Mr. REED. Oh, yes. Yes, sir.

Mr. BLUM. Fees might make up what portion of that?

Mr. REED. Well, they are so variable, depending on the situation. I would say roughly half, or a little less.

Mr. BLUM. How do the New York City legal fees and expenses compare with the fees and expenses in other cities?

Mr. REED. They are generally higher except in Puerto Rico, and perhaps in northern New Jersey where we have a rather involved procedure.

Mr. BLUM. How much of that extra cost is attributable to the complexity of New York State foreclosure law?

Mr. REED. That is a very difficult question to answer. I am sure that a good deal of it could be attributed to that, especially the additional expenses that you run into in other than routine foreclosures.

But it is basically a high cost area in any event.

Mr. BLUM. When a house goes into foreclosure, and it is a two, three, or four family house, does Fannie Mae collect the rents on those other apartments?

Mr. DUNCAN. Until Fannie Mae acquires title to the property, it certainly has no right for the collection of rents, except under the terms of a mortgage instrument.

We could possibly appoint a receiver, but we do not desire a landlord-tenant relationship.

Mr. BLUM. Why don't you appoint a receiver? What are the problems?

Mr. DUNCAN. We have discussed this in our office, but we have not made a cost study of it. Based on our preliminary discussion, it would not be of any particular benefit to Fannie Mae to use this type of system.

Mr. BLUM. From the records that you have supplied to the subcommittee, it seems that some of these houses have been in foreclosure for periods of up to 3 years. Who bears the responsibility maintaining the essential services on these properties while the foreclosure processes is underway?

Mr. DUNCAN. If the mortgagor does not provide it, it may not be provided unless the city comes in and decides that it has got to be undertaken.

Mr. BLUM. If they are provided, who pays for the services?

Mr. DUNCAN. If we get any notices of services performed by the city, we do not pay for any such services but would send the notices to FHA.

Generally we have not had any of these notices as far as I know. Do you know of any cases on that?

Mr. REED. No.

Mr. BLUM. Who makes repairs once the landlord has stopped making payments? Who is responsible for keeping that building in shape?

Mr. REED. We try to avoid waste, of course, on the part of the mortgagor. Usually, where a loan is in foreclosure, and until we acquire title we try to avoid any type of repairs.

Now there are times when, even before or after foreclosure, the service might receive an unsafe building notice from the city of New York, in which case the service would refer the matter to the FHA because eventually it would have to pay the claim.

Mr. BLUM. There is no surcharge against Fannie Mae for waste? In other words, if the building is turned over to HUD in something less than perfect condition, there is no penalty to Fannie Mae; is there?

Mr. DUNCAN. That is correct, except by damage because of fire or something like that.

Mr. BLUM. Would it be correct to assume that, generally, between the time of the last payment and time that you convey title to HUD, very little maintenance work is done on the buildings?

Mr. DUNCAN. That's a very good assumption; yes, sir.

Mr. BLUM. So the delay in foreclosure means that when HUD finally takes title of the building, it's likely to be in pretty bad shape?

Mr. DUNCAN. I think that's a good assumption; yes, sir, particularly if it's a building that's partially vacated or only partially occupied.

Mr. BLUM. In your statement you mentioned the problem of "equity skimming." Would you mind describing that for us in a little more detail?

Mr. DUNCAN. Well, of course, the ownership of a home can be transferred without the services knowing anything about it. The two parties get together and settle, subject to the mortgage.

And even the person who receives the house does not have to record the deed. It is not unusual that the servicer does not know of a transfer of ownership, particularly if his payments come through the mail on a routine basis.

In a situation such as we've had in New York, it's not unusual to find some people learning of these distressed mortgages, who will go in and offer some kind of inducement to the mortgagor to get the property transferred to him. Whether there's any consideration, I don't know. But once he gets the property, all he intends to do is collect the rents during the period of time it takes to foreclose, and therefore benefits from the collection of rents.

Mr. BLUM. Have you also had reports, in New York, of rent collections by individuals who have no ownership interest at all in the property?

Mr. DUNCAN. My records show that we sent notices to our Washington office for transmittal to FHA, involving six properties owned by a Mr. Dennis Pemberton, seven that were owned by Mr. Samuel Goddard and two that were owned by Mr. John Corey. Those are the only cases that we've run across that had any indication—

Mr. BLUM. What is the date of that notification to your Washington office for subsequent transmittal to HUD?

Mr. DUNCAN. August 24, 1971.

Mr. BLUM. In a non-FHA situation, wouldn't the normal procedure be to appoint a receiver who takes responsibility for the maintenance of the property, collects the rents, does the repair work, and then finally make an accounting at the time the foreclosure takes place? Wouldn't that be the way a foreclosure is handled in a non-FHA situation?

Mr. DUNCAN. Would you repeat that again, Mr. Blum?

Mr. Blum. Yes. What I'm asking is, in a non-FHA situation, wouldn't the typical procedure be to appoint a receiver, have the receiver collect the rents, maintain the building, make the repairs, and then give an accounting at the time of foreclosure?

Mr. DUNCAN. I'm not sure that I understand the workings of the community in this particular area, since we deal principally in FHA and VA's. I don't know what the other people do as far as appointing receivers. But I would think that, in connection with a project mortgage where there are substantial rents involved, there would be an appointment of a receiver for collection of rents.

Mr. BLUM. I take it this is not done in New York on FHA 1-4 family simply because it's—economics don't make it—it's too expensive to do?

Mr. DUNCAN. This is what we've concluded; yes, sir.

Mr. BLUM. What steps, if any, do you take to warn the tenants about rent payments? Do you take any steps? Do you tell them whom it should go to?

Mr. DUNCAN. No, sir. Let me make a correction in testimony I gave you a date a moment ago on which we notified Washington on the "equity skimming." Actually, it was February 26, 1971. I have to correct that.

Mr. BLUM. All right. In your statement you say that when a mortgage goes into arrears, the mortgage servicer is encouraged to find ways of reinstating an owner of the property. Is refinancing an acceptable way out?

Mr. DUNCAN. Refinancing, as such, generally would require the payoff of the whole mortgage and a new mortgage. And this, generally, is not a feasible method of doing it because of the cost of obtaining the new mortgage.

The best method, I think, is to recast the mortgage within its terms and amortize the remaining portion of the loan over the remaining term of the mortgage.

Mr. BLUM. Has that been done successfully with any frequency in New York? Do you know? Do you have any feel for it?

Mr. DUNCAN. I don't recall that we've had very many cases of that kind. In fact, I don't recall any offhand.

Mr. BLUM. Well, with such a high delinquency rate, wouldn't you expect much more activity in such things as recasting and reworking the terms of the mortgages?

Mr. DUNCAN. Of course, this has to be coordinated with the borrower. If the borrower doesn't want to recast it, there's not much use in trying to force it on him.

Most of the time, I think the borrower is more interested in getting the back payments caught up, rather than to recast his mortgage.

Mr. BLUM. Can he do that with a settlement plan, some sort of agreement to pay back? What would the usual procedure be?

Mr. DUNCAN. Normally, in a case of that nature, the servicer would enter into an agreement with him where he could pay a full installment and a portion of another installment each month in order to catch up the arrearage.

Mr. BLUM. And once you've started one of those agreements, it no longer counts as paying in arrears? Is that correct?

Mr. DUNCAN. This is a liquidating plan I just mentioned. Under a liquidating plan, it does count as an arrearage. A forbearance plan is a type of modification. Although it's not formally recorded and so forth, we treat it as if it were modification to the mortgage. And as long as the terms of that modification agreement are complied with, we treat it as if it were current, even though the regular mortgage is not.

Mr. BLUM. When the property is sold to another person, I take it a mortgage in arrears is cleaned up by the time of the closing?

Mr. DUNCAN. Since we don't have control over the sale of property, we don't know. I mean, one man assumes the obligation of another without saying anything else about it.

Mr. BLUM. Maybe this is an assumption, but where there's a sale of a new mortgage, the——

Mr. DUNCAN. Where there's a new mortgage, it would be; yes, sir.

Mr. BLUM. You would receive notice if there was a sale simply because the old one would be paid off; is that correct?

Mr. DUNCAN. That's right; yes.

Mr. BLUM. But you might not receive notification of a transfer subject to the existing mortgage? Is that correct?

Mr. DUNCAN. We might not, on the payoff, get the new mortgage either. We would just be satisfying our existing mortgage, not necessarily getting a new mortgage.

Mr. BLUM. In the past year, Fannie Mae moved to an aggregate exception accounting system. Can you tell us a little bit about how that operates?

Mr. DUNCAN. Yes, sir. We have, in our computer system in Washington, the detailed data as it relates to each individual loan that Fannie Mae owns, as to the unpaid principal balance, the amount of principal and interest that's required to be paid each month, and other characteristics, the zip codes, and this type of information.

And at the 25th of each month, we update that record one full installment, as if every payment were made on time.

FNMA mails that report out to the servicer, and he reconciles it with reports of his actual collections, and sends in exception notices, exceptions for cases that are in foreclosure, cases that are under forbearance plans, or other categories of nonconformity with what would happen under a utopian situation.

Mr. BLUM. And then that amount is deducted from the bill, and in fact, he sends you the reduced amount? Would that be the way it works?

Mr. DUNCAN. Yes; that's right.

Mr. BLUM. I take it that what you're trying to do, in terms of managing your relationship of the servicers, is to cut to a minimum the amount of paperwork required on your part?

Mr. DUNCAN. This is it. Now, prior to the date of this, we were using a system just exactly the reverse, where the servicer made what

we called the single debit report, and sent it into us, and we did the reconciling. And we reversed it, and we sent him the——

Mr. BLUM. And let him do the reconciling?

Mr. DUCAN. Right.

Mr. BLUM. This should be more efficient and cut your costs?

Mr. DUCAN. We think after we get it operative and get the bugs out of it, it should be very efficient.

Mr. BLUM. I take it that you don't keep, in your computer, records of each of the properties by street address or by name of mortgagor?

Mr. DUNCAN. We have the street address. We do not have the name of the mortgagor.

Mr. BLUM. As I understand your statement, Fannie Mae has had a history of problems with United Institutional servicing dating back to 1968; is that correct?

Mr. DUNCAN. Yes, sir; I think that's correct.

Mr. BLUM. And Mr. Katz, the chairman of United, told you as early as October 1969, that United felt it had no responsibility for quality of the loans that originated? Is that correct?

Mr. DUNCAN. Yes, sir.

Mr. BLUM. Did you report any of the ongoing difficulties with United to the Washington office of Fannie Mae?

Mr. DUNCAN. I don't recall making any special reports to them; no, sir.

Mr. BLUM. Well, when might your first contact with the Washington office about the difficulties you were having with United have come?

Mr. DUNCAN. They would have received copies of each one of the audits; yes, sir.

Mr. BLUM. And to your knowledge, did copies of the United audit report go to the FHA in the usual manner?

Mr. DUNCAN. Not to my knowledge, but to my belief, this is our procedure, and I assume this was followed.

Mr. BLUM. That procedure was followed. When was United's bidding privilege suspended?

Mr. DUNCAN. We never did suspend United's bidding privilege.

Mr. BLUM. Perhaps I'm a little confused here. Did they voluntarily withdraw? Was that it? Did they agree not to bid at a certain point in time?

Mr. DUNCAN. Actually, when they asked for the last 60 days extended time, they said they would refrain from bidding in the auction system on their own. My understanding of this—and this is an assumption—was that Mr. Katz preferred not to have a suspension of the company when he was trying to sell, because this might have impaired his capability of selling.

Mr. BLUM. Technically, there was no suspension, and you knew that the company was bound to be sold and that would have simply scrambled up the ability to sell?

Mr. DUNCAN. That's right, sir.

Mr. BLUM. They were put on probation, however; is that correct?

Mr. DUNCAN. Yes, sir.

Mr. BLUM. I have a notation on a servicing record which you furnished to me under subpoena, that they were placed on probation on April 11, 1969.

Mr. DUNCAN. Yes, sir, this is correct.

Mr. BLUM. Would that probation have been reported to Washington, or is that simply a regional office action?

Mr. DUNCAN. That's the regional office.

Senator HART. Mr. Blum and Mr. Duncan, there remains, perhaps, another 20 or 30 minutes of questioning. I suggest a recess of 10 minutes, and we'll continue before taking a lunch break.

(Whereupon, a brief recess was taken.)

Senator HART. The committee will be in order, and I think we resume with Mr. Blum continuing questioning.

Mr. BLUM. Mr. Duncan, just before the recess, we had gone into the question of the United bidding privilege. You mentioned that they, voluntarily, withdrew from the Fannie Mae auction.

You said that was in connection with the sale—was that in connection with the sale of the servicing or with the sale of the company?

Mr. DUNCAN. I understand they were trying to sell the servicing, not the company.

Mr. BLUM. I see. Was the servicing taken away by Fannie Mae? Was United's servicing taken away by Fannie Mae?

Mr. DUNCAN. No, sir.

Mr. BLUM. Did you suggest to them that it be sold?

Mr. DUNCAN. No, sir. Mr. Katz told me that unless he could improve the conditions, he planned to place the servicing elsewhere.

Mr. BLUM. In other words, the situation was that you had repeatedly said to United, "Look, this servicing record is not very good. You are going to have to improve it." And the response was, "If we cannot improve it, we will sell it."

Is this correct?

Mr. DUNCAN. Yes, this is correct.

Mr. BLUM. Finally, it was sold; is that correct?

Mr. DUNCAN. Yes.

Mr. BLUM. How large was United's servicing portfolio for Fannie Mae when it was sold?

Mr. DUNCAN. Approximately \$110 million, I have it in my statement—6,084 loans.

Mr. BLUM. Roughly \$110 million. If that portfolio had been free of trouble at the time of the sale, what might the market price have been?

Mr. DUNCAN. The value of a servicing portfolio will vary. I really do not know too much about the negotiations for the transfer of these, but I have known of cases where the value of a servicing portfolio was 1 percent of the unpaid principal balance of the mortgages, which in this case would have been in excess of a million dollars.

Mr. BLUM. But that would be for a portfolio which was relatively clean, and this was one that was in pretty bad shape; would you not say?

Mr. DUNCAN. Well, I do not know. As I say, I do not know how they establish the values. I say I have known some to go that high and I have known some to go for less. Generally we do not require them to tell us the considerations involved in the transfers.

Mr. BLUM. In your statement you indicated that you told officials of the Jacksonville National Bank that United's servicing portfolio might be for sale; is that correct?

Mr. DUNCAN. This is correct.

Mr. BLUM. Who, at the bank, did you mention the possibility to?

Mr. DUNCAN. Mr. Beason, Mr. Phillips, and Mr. Winston.

Mr. BLUM. Were you aware that other institutions were aware of the portfolio and were talking to United?

Mr. DUNCAN. I had heard that Mr. Katz had been in touch with some other firms, yes, sir.

Mr. BLUM. Did you warn Jacksonville that the portfolio had serious servicing problems?

Mr. DUNCAN. They visited my office on January 8. I did tell Mr. Phillips and Mr. Beason that we thought the servicing portfolio could be approved for transfer to them, but we suggested that they take a good look at the portfolio because we had had some problems with it.

Mr. BLUM. Why is a portfolio, with a large number of foreclosures or incipient foreclosures, a liability to the servicer rather than an asset?

Mr. DUNCAN. It gets no compensation for the completion of foreclosures.

Mr. BLUM. So it has to bear some of the costs without compensation—

Mr. DUNCAN. Yes, sir, bear the expense of supervising it, not out-of-the-pocket costs per se except for the supervision of it.

Mr. BLUM. And they will not be able to collect the servicing fee, normally on the anticipated life of the mortgage. Is that correct?

Mr. DUNCAN. Yes, sir; that is right.

Mr. BLUM. Could you have suspended the servicing contract with United and transferred it to another company without paying United anything?

Mr. DUNCAN. It is possible. But I could not have. It is possible that Fannie Mae could have. I do not recall, after about 12 years of being with Fannie Mae, that we have involuntarily taken a portfolio away from anybody and then sold it.

Mr. BLUM. Perhaps you have seen the articles in the New York Post relating to the transfer of servicing from United to Jacksonville National Bank. Have you seen—

Mr. DUNCAN. Yes, sir; I have.

Mr. BLUM. Do you have any comment on that?

Mr. DUNCAN. Yes. I would comment that the statement to the effect that there was a relationship between the California situation and the New York situation was completely improper because, at the time of the transfer—the transfer took place in New York—I had never heard of the \$250,000 mentioned by the Post.

In fact, I learned about it in the Post. That is the first time I knew anything about it.

Mr. BLUM. And you did not receive any sort of reward or compensation for steering the Jacksonville Bank to United?

Mr. DUNCAN. Absolutely not.

Mr. BLUM. And Fannie Mae did not receive any?

Mr. DUNCAN. None whatsoever.

Mr. BLUM. Is it usually left up to the company selling the servicing portfolio to decide who the buyer is?

Mr. DUNCAN. Subject to Fannie Mae's approval, yes.

Mr. BLUM. If a buyer is a Fannie Mae approved servicer, can you object to the deal?

Mr. DUNCAN. If the buyer's servicing record with us is not completely satisfactory, we might object to it, yes, sir.

Mr. BLUM. When you discussed the underwriting problems with Mr. Katz of United, did you ever suggest to him that some of the mortgages were of questionable character?

Mr. DUNCAN. I suggested to Mr. Katz that, if he were having difficulty with certain loans, that it might be appropriate to take a look at those particular loans that were giving him a problem to see if they were coming from a particular broker or any particular brokers.

I mentioned that to him in October of 1969, and in January of 1970 we discussed it again. And Mr. Katz informed me that he had discontinued doing business with one broker, and he had two others under surveillance.

Mr. BLUM. In your statement you mentioned that you required United to buy back 12 loans that went into foreclosure without a single payment being made. Would that not indicate that there were serious problems with those loans, and at least the possibility of fraud?

Mr. DUNCAN. I did not consider it fraud. I considered either that they had not done a good job of underwriting or they had not done a good job of servicing. I did not consider it fraud.

Mr. BLUM. Is the line between good job of underwriting and the possibility of fraud a rather thin one?

Mr. DUNCAN. Well, I have never really been experienced in fraud enough to know what the difference is. But my judgment was that there was nothing wrong with the underwriting on these loans.

Mr. BLUM. Was HUD notified of that transaction?

Mr. DUNCAN. I did not notify them, no, sir.

Mr. BLUM. Did you know that Washington notified them?

Mr. DUNCAN. I do not know, no, sir.

Mr. BLUM. Were those loans repurchased by United at a discount?

Mr. DUNCAN. Yes, sir; at the same price that we paid for them.

Mr. BLUM. Is it possible that the amount of the discount recovered by United more than paid whatever expenses they might have incurred in foreclosure?

Mr. DUNCAN. It is possible, yes, sir.

Mr. BLUM. So they might very well have come out ahead on that transaction?

Mr. DUNCAN. It is possible, yes, sir.

Mr. BLUM. At the time the Jacksonville Bank bought the United portfolio how much of it was in foreclosure?

Mr. DUNCAN. Out of the 6,084 loans that were transferred, 410 were in foreclosure.

Mr. BLUM. And that in money terms would be roughly how much? Do you know?

Mr. DUNCAN. In dollars?

Mr. BLUM. Yes; \$8 million, \$10 million?

Mr. DUNCAN. Between \$6 to \$8 million.

Mr. BLUM. \$6 to \$8 million. What has happened since then? Have the number of loans—how many of those loans that were sold have subsequently been foreclosed? Do you have any idea?

Mr. DUNCAN. Not through my records, I do not. I did get a report from Jacksonville National Bank recently that would give us some indication.

Mr. BLUM. Can you tell us what the substance of that report was?

Mr. DUNCAN. I thought I had that report with me, Mr. Blum, but I do not, apparently. I could supply that to you later.

Mr. BLUM. We would very much appreciate your furnishing it for the record.

You have, I take it, conferred with officials at Jacksonville in an effort to solve the problems of that portfolio; have you not?

Mr. DUNCAN. Yes, sir. They have visited our office on at least two occasions, and they have given us written reports on them.

Mr. BLUM. Is it your surmise that the core of the problem in that portfolio is the underwriting, or was it the combination of underwriting and servicing?

Mr. DUNCAN. I would think it would be a combination of the two. We have found a number of cases in which the records were not maintained correctly, and it looked as if there were not adequate personnel involved in the servicing or there were records kept without too much concern about accuracy.

Mr. BLUM. On the basis of your statement, it appears that Fannie Mae's experience with Eastern was somewhat better than it was with a number of other servicers in the New York City area. Is that correct?

Mr. DUNCAN. Yes, sir.

Mr. BLUM. You say that you suspended Eastern's bidding privileges, in fact, on April 3, 1972, following indictments in the Eastern District of New York. Did you continue to purchase mortgages already committed for?

Mr. DUNCAN. Those commitments that they had obtained in our auction system, they were allowed to fill with mortgages that they had originated; yes, sir.

Mr. BLUM. Were you obliged to do that under contract?

Mr. DUNCAN. It is my understanding that we did have a contractual relationship that we had to honor; yes, sir.

Mr. BLUM. And you continued to permit Eastern to service mortgages?

Mr. DUNCAN. Yes, sir; they are continuing to service mortgages.

Mr. BLUM. And is that with the same contractual obligation?

Mr. DUNCAN. Yes, sir.

Mr. BLUM. What sort of finding would be necessary for you to remove the servicing portfolio without your being afraid of litigation?

Mr. DUNCAN. This of course, would require the consideration of our committee, our Business Integrity Committee, to make this determination.

I could only conjecture as to what might be considered sufficient to do this. My own opinion would be that, if there were fraud involved, it might be a basis on which to take this step.

Mr. BLUM. In other words, if Eastern were party to fraud that could lead to taking away the servicing portfolio?

Mr. DUNCAN. That would be my opinion; yes, sir.

Mr. BLUM. Have you been approached by other mortgage companies in New York offering to sell you Eastern originated mortgages?

Mr. DUNCAN. Yes, sir; we have.

Mr. BLUM. Who has approached you, and what did you tell them?

Mr. DUNCAN. Colonial Mortgage, and they approached us on the basis that they had accepted an agreement with Eastern to handle something in the nature of \$4 million worth of mortgages from them.

We told them that we would not let them deliver the mortgages to us if they were closed by Eastern. Now, if they assigned the commitment, the FHA commitment, from Eastern to Colonial, and Colonial

supervised the underwriting and closing of the loan, then we would accept it. But we would not accept it on the basis of the loan that was already closed.

Mr. BLUM. In your statement you said that Inter-Island had a high delinquency ratio and was put on probation.

When you talked to Mr. Sirote about that, what kind of explanation did he offer you?

Mr. DUNCAN. I am just looking at a note we have here on one of our conferences that we had with him; he indicated that insufficient collection personnel was causing his delinquency problem, and that he was going to add additional staff to offset this.

Mr. BLUM. He would increase his collection effort?

Mr. DUNCAN. Yes, sir.

Mr. BLUM. Were you here when Mr. Morales testified on Friday last?

Mr. DUNCAN. Yes, I was.

Mr. BLUM. And did you hear Mr. Morales say that Mr. Sirote had put pressure on him to collect the payments?

Mr. DUNCAN. Yes, I did.

Mr. BLUM. I take it that is not what you thought Mr. Sirote was referring to when he said——

Mr. DUNCAN. No, sir. I thought he was using his own personnel to make collections.

Mr. BLUM. What are the Fannie Mae requirements as to payments of matured installments when mortgages are shipped to you?

Mr. DUNCAN. Fannie Mae has changed its requirements within the last few years. At the present time, the loan must be delivered within 45 days of the due date of the last paid installment.

In other words, the loan that is bought today, which is the 15th of the month, must have had the April installment paid before it would be eligible.

Mr. BLUM. In effect, you want the loan shipped to you to be current at the time it is shipped?

Mr. DUNCAN. Yes, sir, that is right.

Mr. BLUM. What explanation is there for a loan that is not current at the time it is in fact shipped to Fannie Mae?

Mr. DUNCAN. Many of our audit reports have found this condition existing, and the explanations that we obtained from the servicers that had this condition existing generally was that the coordination between the shipping department and the accounting department was not completely effective at these times, and the loan was shipped without knowledge of whether the installment was received or not.

They may have made a call to the accounting department, and got some indication. But they did not have a ledger card in front of them.

Mr. BLUM. To collect from the FHA insuring fund, it is Fannie Mae's obligation to convey good title on the property to HUD; is that correct?

Mr. DUNCAN. Yes, sir.

Mr. BLUM. Who orders the title search of the last conveyance?

Mr. DUNCAN. I will ask Mr. Reed to discuss this.

Mr. REED. After foreclosure?

Mr. BLUM. Yes.

Mr. REED. The counsel representing us.

Mr. BLUM. Which title company is generally employed to do that search?

Mr. REED. Ordinarily, counsel will get the foreclosure search from the company that originally insured the loan, unless that company perhaps is at a distance and does not give particularly good service. Then they will obtain the owner's policy from the same company that made the foreclosure search.

Mr. BLUM. Can you recall the claim against Title Co. by Fannie Mae? Was the search prior to conveyance to HUD showing a defect in the title?

Have you come up with defects in title on those searches prior to conveyance to HUD?

Mr. REED. We have; yes, sir.

Mr. BLUM. Do you recall how frequently that might happen?

Mr. REED. Quite seldom. I do not hear about the routine cases. These things may occur and the regional office would not hear about them.

Mr. BLUM. To your knowledge, it is not a very frequent occurrence?

Mr. REED. No, sir.

Mr. BLUM. Is one of the things for which you are insured forgery and the identity of the mortgagor, are those part of the title policy?

Mr. REED. Yes.

Mr. BLUM. Mr. Duncan, in your statement you mentioned several cases of phantom mortgagors having referred that to HUD. Do you know whether or not HUD came back to make a claim on that title insurance on any of those cases?

Mr. DUNCAN. I think in my statement I said I got no reaction at all back from HUD.

Mr. BLUM. No reaction in terms of anything they did and certainly no attempt to make a claim against the insurance?

Mr. DUNCAN. I have no knowledge of it.

Mr. BLUM. Have you ever attempted to recover against a mortgage company on the warranties that accompany the purchase of the mortgage, rather than on the HUD insurance? There are a number of warranties. Perhaps you would want to elaborate on that.

Mr. DUNCAN. Not to my recollection, we did not, no.

Mr. BLUM. The warranties include a warranty that the mortgages are regular, that there is no fraud involved. What are they precisely?

Mr. DUNCAN. The circumstances that they are warranting are that they have no knowledge of anything that would impair the marketability of this loan, such as delinquencies and this type of thing.

Mr. BLUM. Has Fannie Mae had difficulties with condemnation in New York City?

Mr. DUNCAN. Yes, we have.

Mr. BLUM. Could you tell us a little bit about them?

Mr. DUNCAN. We have had in excess of 100 properties that have been condemned. I am not certain of the exact numbers, approximately somewhat around 135 cases.

It is very difficult for us to get notice that a condemnation is going to take place. Consequently, it takes us what seems like forever to get the settlement of a condemnation. We had some that ran as much as 2 years to get our awards out of the condemnation.

Mr. BLUM. Can a condemnation give rise to a claim against FHA insurance?

Mr. DUNCAN. No, we cannot make a claim against FHA, because we cannot transfer title to them.

Mr. BLUM. And the problem in New York is a problem of the lack of or failure to notify the people that a property has been condemned?

Mr. DUNCAN. This is one of the problems that we have encountered there. We tried to get this information; we found a kind of a run-around situation.

Mr. BLUM. What steps have you taken to try to improve that? Can you describe that for us?

Mr. DUNCAN. We have asked each of our servicers to try to use every means that it could to identify the cases when they go into condemnation.

Apparently, we are over the cycle when they had a heavy number of these. It seems to have occurred during the year 1970, the most of them. And I do not know whether this is because the city had a lot of funds for schools or what caused them to be concentrated at that particular time, but that was when most of our problems occurred.

Right now I do not think we are having nearly the number that we had. I did write to the mayor of the city. He, in turn, referred me to Mr. Walsh, the administrator, who in turn, referred us to the corporation counsel. Mr. Reed went up and visited the corporation counsel and spent a couple of days trying to ascertain if there was any way we could get notice. And we ended up with the conclusion we could not get it.

Mr. BLUM. Mr. Reed, I take it it was your feeling that there was just no way through the maze?

Mr. REED. Well, it is very difficult. Their method of notice is to publish the upcoming condemnations in the City Register, and then clip that article and mail it to the mortgagor or to the person receiving the tax bill. And that does not tie in with the servicer's records; and, of course, these mortgagors, if they receive the notice, in many cases might not understand it. They might—

Mr. BLUM. They receive them by mail, is that correct?

Mr. REED. Yes.

Mr. BLUM. Would the condemnation not show up in a title search?

Mr. REED. If the vesting has already taken place, it probably would. But if you had your title search, and then came the condemnation, you might not know about it. And there may be some other circumstances where it would not show up.

Mr. DUNCAN. I might mention that some of our discoveries occurred during the foreclosure period, when we found that, as we attempted to foreclose, the property had already been condemned.

Mr. BLUM. Have you had any difficulty at Fannie Mae with the New York City demolition program? Have you discovered, in demolishing properties, some should not have been demolished?

Mr. DUNCAN. We have had a number of cases where the properties have been demolished, and our services have found that they were demolished, and in those cases we go ahead with our foreclosure. We do not get a surcharge from FHA on our claim because the property is being demolished.

Mr. BLUM. In effect, the loss in that situation falls on the FHA insuring fund if the demolition is unwarranted.

Mr. DUNCAN. Mr. Blum, may I interrupt for just a second. The figures you were asking earlier about Jacksonville National Bank, I have them here, of the cases that they took over from United. They have 566 that are now in foreclosure.

Mr. BLUM. What would that dollar amount come to?

Mr. DUNCAN. Pardon?

Mr. BLUM. What might that dollar amount add up to?

Mr. DUNCAN. You can figure roughly about \$10 million, I would say.

Mr. BLUM. That would have dropped down—mortgages which had already been paid off.

Mr. DUNCAN. They show 227 during the period of time that have dropped out, they have already been completed.

Mr. BLUM. So the total of 227 plus how many?

Mr. DUNCAN. 556, which makes a total of 793, I believe. In addition to that, we have had one third-party sale and 53 that are in the process of being referred to foreclosure.

Mr. BLUM. So the total there runs to about 850 mortgages.

Mr. DUNCAN. I have got to add another 75 to that. We have acquired 227 which were occupied, 75 which were vacant; so there is a total of 302 that were acquired rather than the 227 figure I gave you. The total is 921 cases.

Mr. BLUM. The 921 again, in dollar terms roughly, do you have a feel for it—\$20 million or thereabouts?

Mr. DUNCAN. I would say at the lowest \$15 million—between \$15 and \$20 million; yes, sir.

Mr. BLUM. Between \$15 and \$20 million. Do you have a feeling if that is the end of the trouble? Will the rest of them stick, or are there still problems?

Mr. DUNCAN. This is a very difficult question to answer. My feeling is that we have reached a point in time that we have already noted the worst cases. Generally, our experience in foreclosures has been as much as 2 to 3 years. I expect to see foreclosures reduced rather drastically. Foreclosures generally occur within the first year or two of their life.

In New York, I do not know whether this experience factor will apply or not. But my guess is at the moment we are reducing the number going in, so over a long period of time we may still have the same number, but the frequency of it is being reduced at the moment.

Mr. BLUM. Would it be correct to say that, for the most part, that because of the discounts, a secondary market buyer, such as Fannie Mae, might make money in a foreclosure situation, but it becomes unprofitable when foreclosure costs rise very high? Is that a fair statement to make?

Mr. DUNCAN. Now, we have tried to ascertain that our position is concerning gains and losses on foreclosures. And we conducted two studies. One assumption shows we made a little bit of money; one showed we lost a little bit of money.

We have concluded, overall, we do not lose money on foreclosures. We break about even on total.

Mr. BLUM. Points are supposed to equalize market interest rate and the FHA face rates. We have had testimony to the fact that mortgage companies try to originate at a markup of several points

and to make their profit on the markup in points. Is that not a kind of turning upside down of the market situation?

Mr. DUNCAN. Do you mean that the mortgage company originated a greater number of points than the ones required to sell——

Mr. BLUM. We have had testimony that it was routine business for mortgage companies to try and get 2 or 3 points beyond the Fannie Mae price, as they put it. Do you think that goes beyond the function of points in the market system?

Mr. DUNCAN. I do not really know the impact of mortgage companies on points, because we do not ask them what they originate the loan for. So any comments I might make would be speculative and supposition.

Mr. BLUM. I wonder if you would mind furnishing for the subcommittee's record copies of the various audits, the audit letters of the audits themselves, that were referred to in your prepared statement.

Mr. DUNCAN. You want the reports?

Mr. BLUM. Yes.

Mr. DUNCAN. Yes, sir; we would be glad to furnish those.

Mr. BLUM. And also, if you would——

Mr. DUNCAN. Are you talking about for each one of the companies that were audited?

Mr. BLUM. Right, the various companies that you discussed in this statement; and also if you would, for our records, submit copies of your memoranda of conversations with these various mortgage company officials that you have referred to here.

Mr. DUNCAN. In the audits or in the other——

Mr. BLUM. No. These were when they visited your office and you had discussions with them.

Mr. DUNCAN. Yes.

Mr. BLUM. I have no further questions.

Mr. CHUMBRIS. Thank you. This may sound like an elementary question, but if you break even on a foreclosure and the evidence shows that some of the houses that were purchased by these people had inflated prices, who loses in the process?

Mr. DUNCAN. FHA. FHA pays us the amount of our indebtedness at the time of foreclosure, plus a percentage of the foreclosure expenses.

Mr. CHUMBRIS. So the taxpayers pay for the losses to FHA?

Mr. DUNCAN. I do not know how much the taxpayers get involved with FHA mortgage insurance. This is supposed to be self-sustaining through the premium that is paid for the mortgage insurance. I do not know how solvent it is, but this is the theory.

Mr. CHUMBRIS. Now, primarily, what I think most of us are interested in in these hearings are what we might be calling the impact of this program that seems to have originated with the 1968 act, where it was the will of Congress that homes be made available for persons of low-income and moderate-income areas, to live in moderate-income areas.

We get several reactions that we have had in the hearing thus far. Some people seem to think the program is not serving its purpose because of the people who are talked into buying a house do not really understand it, the consequences of buying a house; and, if there is a foreclosure, they lose it. They feel similar to what they may have been paying rent on all the time. Do you have any comment on that?

Mr. DUNCAN. I might mention that in our conversations with the people with whom we do business, they have indicated at times that some of the mortgagors spoke of paying rent, rather than mortgage payments; and that apparently these people were not really understanding of their responsibilities under a mortgage. They still considered it rent, rather than mortgage payments. Is this responsive to your question?

Mr. CHUMBRIS. Yes. Do you have any suggestions that might help a situation like that, so that the intent of Congress in seeing that people of low income to moderate income are able to buy homes and still be able to gain the fruits of being homeowners?

Mr. DUNCAN. My only suggestion would be that these people be given much closer counseling as to what their obligations are and what their responsibilities are and what they are entitled to under the act.

Mr. CHUMBRIS. Well, what suggestions do you have as to how that could be done?

Mr. DUNCAN. I think the 237 program has this in it now. Whether or not this is adequate, I do not know. But I think something similar to this would have to be done. This is just speculation on my part. I really do not know the answer.

Mr. CHUMBRIS. Mr. Chairman, Mr. Charles Kern has a few questions, and in view of the long questioning that the witnesses have had here this morning, I think we have fairly well covered quite a few points.

Senator HART. Mr. Kern?

Mr. KERN. With reference to the auditors, would you tell me who these auditors are? Would they be Fannie Mae employees?

Mr. DUNCAN. Yes. Mr. Kern. Fannie Mae has its own auditors.

Mr. KERN. Has there ever been any question of any collusion between the auditors and the servicers to conceal or minimize any deficiencies?

Mr. DUNCAN. Absolutely not.

Mr. KERN. What advance notice do these servicers receive that the auditors are coming?

Mr. DUNCAN. I personally sign the letter notifying them that the auditors will be coming into their shop, and this is done somewhere from maybe a week to 10 days on the average before the auditing begins.

Mr. KERN. Do you ever have a surprise audit?

Mr. DUNCAN. No, sir; we do not use surprise audits.

Mr. KERN. On page 9 and 10 of your testimony, you give these figures on the FHA insured mortgages which are in arrears in New York City, and on page 9 you say that the mortgage which you own—you had 15,303 in New York City on the 25th of March 1972, and of these 3,805, about 24.8 percent, were in arrears, including the 1,079, about 7.05 percent, that were in foreclosure.

On the next page you give other arrearage statistics which came from the regional records. As I understand, the first figures came from your Washington Fannie Mae computer.

Mr. DUNCAN. Yes.

Mr. KERN. And you chiefly distinguish these regional figures on the basis of a 6 day time difference and also on a geographical problem, apparently. The second set of figures will represent all of the loans

being serviced by services located in New York City, and in that case, might include these Puerto Rican loans as well as the New York City loans.

Now, in the second set of statistics for the 31st of March 1972, you state that you have 17,596 loans in your portfolio, and the number in arrears is 1,433. Now, on the basis of the earlier set of statistics, I was a little surprised by this.

I would expect that, doing a little arithmetic here, that there would be at least about 2,700 loans in arrears 6 days after the first figures, and something like 17.8 percent of the total would be represented by those.

Instead there is just about a 50 percent drop in the number of loans in arrears in the 6-day period. Could you tell me why? Is this excluding foreclosures?

Mr. DUNCAN. Yes, I will try. The statistical report, the report we get from our computer at that point, is at the 25th of the month, whereas the report that we get from the region is at the end of the month.

I took a reading on the Jacksonville National Bank, for example, I believe it was their April figures—I think this is the figure I looked at—and they had collections between the 25th of the month and the end of the month totaling \$160,000.

Now, if we related this to how many loans that were collected during this period of time, and if we assume that an average monthly installment is somewhere in the neighborhood of \$200, this could have meant a difference of 800 loans during that one period of time, which to me indicates that we are having a substantial number of our mortgagors who are paying in the last few days of the month.

Is this what you are referring to?

Mr. KERN. The collection is normally due on the first of the month?

Mr. DUNCAN. That is right.

Mr. KERN. They make the last month's payment just before the end of the month?

Mr. DUNCAN. Before two payments come due; yes, sir.

Mr. KERN. Do you keep any record of the dollar amount actually involved in these arrearages?

Mr. DUNCAN. Not in our regional offices. We do not have any dollar figures in the regional office at the moment. We started converting to this aggregate exception system in 1970, and at the moment we are expecting some management reports will be coming out of this computer within, probably, 6 to 8 months. Then we can have that kind of data available.

But it is not on a return basis. It is not available to us at the moment. I had this particular figure printed out from our computer on a special project basis for this particular report.

Mr. KERN. Thank you. That is all I have. Thank you.

Senator HART. Thank you very much. Are there any further questions?

Mr. BLUM. One final question.

I gather from your discussion of the statistics, the development of information which is reliable on numbers of mortgages, number in foreclosure, and the number originated, is extremely difficult because of the constantly shifting factors.

People make payments and thus change the numbers, is that correct?

Mr. DUNCAN. Yes, sir. We have quite a number of cases reinstated after we have reviewed them and determined they warrant foreclosure and after they go to the servicer for foreclosure and after we send them to field counsel. We attribute this to the fact that these people have become sufficiently smart to know that they can put off the inevitable until the day that they get this notice of foreclosure.

This may be the real—

Mr. BLUM. The central point is that keeping statistical records that are meaningful in this area is very difficult. And if someone wanted to make a point with these statistics, he could rearrange them by the date of the month on which he took them or by category, or by anything he wanted to look at.

Mr. DUNCAN. Yes, sir.

Mr. BLUM. They sort of float on quicksand.

Mr. DUNCAN. This is possible with our present data.

Mr. BLUM. You have managed to produce them on a special project basis only from the computer. But to your knowledge, HUD does not do this; does it?

HUD does not keep its own data on arrearages and foreclosure.

Mr. DUNCAN. I do not think they do. I do not know that they do not, but I do not know that they do either.

Mr. BLUM. You have not seen any?

Mr. DUNCAN. I saw something recently—the regulations that just came out asking that the mortgagees give them a summary report now at the end of the month, giving this type of data. But as of the date of this time period, it was not in existence.

Mr. BLUM. Does it not strike you that this kind of data is one of the most important management control tools that they could possibly have as to how effectively mortgage programs are operating, and how the servicers or originators are performing?

Mr. DUNCAN. It is very central; yes, sir.

Mr. BLUM. Mr. Chairman, I ask that records furnished to the subcommittee by Fannie Mae under subpoena be made part of the record, and particularly the summary servicing record of a number of New York mortgage companies.

Senator HART. No objection.

Mr. BLUM. I have no further questions.

Senator HART. Mr. Duncan, at the recess—I did not have an opportunity to put this in the record—I told you that we were impressed not only by your cooperation, but by your knowledge. We do appreciate your testimony, and appreciate also the help given you by your associates.

Mr. DUNCAN. Thank you very much, sir.

Senator HART. We are adjourned. We will resume this hearing in this room tomorrow.

I would like to correct the record—I am told that it will be room 6202.

(Whereupon, at 2:10 p.m., the subcommittee adjourned, to reconvene the following day at 11 a.m. Testimony resumes at p. 753.)

Material Relating to the Testimony of Kenneth Duncan and Oakley Hunter

EXHIBIT 1

Letter to Antitrust and Monopoly Subcommittee From FNMA Transmitting Documents Received Under Subpena Dated June 21, 1972

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
Washington, D.C., June 21, 1972.

HON. PHILIP A. HART,
Chairman, Subcommittee on Antitrust and Monopoly, Committee on Judiciary, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: In connection with the appearance of Mr. Kenneth A. Duncan of the Federal National Mortgage Association before your Subcommittee on May 15, I am returning herewith the corrected copy of the transcript for that date.

In addition, and in response to the subpoena issued on June 19, 1972 and further in response to the request of Mr. Jack A. Blum, Assistant Counsel to the Subcommittee, I am forwarding herewith the following documents:

1. Inter-Island Mortgagee Corp.
 - a. The November, 1966 audit report (memorandum dated February 9, 1967).
 - b. The December, 1967 audit report, with related correspondence. (memorandum dated February 26, 1968).
 - c. The February, 1971 audit report together with related correspondence. (memorandum dated May 24, 1971).
 - d. The May, 1972 audit is now in progress and therefore not yet available.
2. Dale Funding Corp.
 - a. The March, 1968 audit report, and related correspondence (memorandum dated June 3, 1968).
 - b. The December, 1971 audit report, and related correspondence (memorandum dated March 28, 1972).
3. Eastern Service Corp.
 - a. The November, 1967 audit report and related correspondence (memorandum dated February 6, 1968).
 - b. The December, 1970 audit report, and related correspondence (memorandum dated April 30, 1971).
4. Springfield Equities, Ltd.
 - a. The July 1970 audit report, and related correspondence (memorandum dated October 6, 1970).
5. United Institutional
 - a. The August, 1968 audit report, and related correspondence (memorandum dated November 7, 1968).
 - b. The February, 1970 audit report, and related correspondence (memorandum dated May 6, 1970).
 - c. The February, 1971 audit report—this audit has not been finally cleared (memorandum dated August 23, 1971).

Also, the Subcommittee has subpoenaed and we have otherwise been asked to supply for the record memoranda of conversations between our Philadelphia Regional Office and officials of the various mortgage companies mentioned in Mr. Duncan's testimony.

We regret to advise the Subcommittee that in not every case do we have all of the supporting data. Many of the references made by Mr. Duncan in his prepared testimony were based on entries in our Regional Office records, diaries, etc. The copies that might normally be expected to be available were destroyed by the Regional Office, following normal procedures, after a period of six months. However, in some instances, we have been able to find some of memoranda of conversations and they are attached.

Specifically we are attaching the following:

1. Dale Funding Corp.
 - a. Letter of April 11, 1969, placing the company on probation.
 - b. Letter of March 11, 1970, lifting probation.
 - c. Letter of April 12, 1971, placing the company on "special reporting".
2. Inter-Island.
 - a. Letter of July 8, 1971, lifting probation.

- b. Copy of Regional Office telegram to Inter-Island on May 10, 1972, suspending the company.
- c. Letter of May 11, 1972, suspending Inter-Island.
- d. Letter of May 11, 1972, suspending Inter-Island Mortgagee corporation of Puerto Rico.
- 3. Eastern Services, Ltd.
 - a. Letter of April 3, 1972, suspending Eastern.
- 4. Springfield Equities, Ltd.
 - a. Letter of April 11, 1969, placing the company on probation.
 - b. Letter of June 25, 1969, extending probation.
 - c. Letter of October 7, 1969, lifting the suspension.
- 5. United Institutional.
 - a. Internal Memorandum December 19, 1968, concerning meeting on audit.
 - b. Letter of December 20, 1968, from FNMA concerning certain audit findings.
 - c. Internal memo April 23, 1969, covering a meeting with United on April 21, 1969.
 - d. Internal memo of October 31, 1969, covering meeting with United on October 31, 1969.
 - e. Letter of January 14, 1970, from FNMA re delinquency and extending probation.
 - f. Letter of February 9, 1970, from FNMA extending probation.
 - g. Internal memo of December 23, 1970, re meeting with United.
 - h. Letter of December 29, 1970, from United to FNMA re reduction in delinquency.
 - i. February 16, 1971, letter from FNMA to United re repurchase of 12 loans.
- 6. Jacksonville National Bank.
 - a. Letter of December 29, 1970, from FNMA approving Bank as FNMA seller/servicer.
 - b. Audit on transfer of servicing from United to Jacksonville and related documents (memorandum 4/12/72).

We trust that the foregoing fully complies with both the Subcommittee's subpoena and with several requests otherwise made of us by the Subcommittee.

Sincerely,

JAMES E. MURRAY,
Vice President and General Counsel.

"B"

Handwritten signature and initials
✓

FD-100

Rev. 1-4-70

SELLER, SERVICE & CREDIT AGREEMENT

FEDERAL NATIONAL MORTGAGE ASSOCIATION
 211 South Broad Street
 Philadelphia, Pa. 19102

Date: March 8, 1971

FIRM NAME, ADDRESS and ZIP CODE:

Dale Funding Corporation
 9520 Soaview Avenue
 Brooklyn, New York 11236

Phone Number: (212) 696-3200Seller, Servicer Code No: 13204-000-1Area of Operation: New York Metropolitan Area & Suburban Counties

Branch Offices and Addresses:

Office Manager:

Name and Titles of Principal Officers:

Mitchell Chiert, President - Charles Shusterhoff, Secretary/Treasurer

Serving Supervisor (Name and Title):

Person to Contact on Delinquencies:

Charles Shusterhoff

Charles Shusterhoff

Person to Contact on Insurance:

Person to Contact on Accounting Reports:

Charles Shusterhoff

Mitchell Chiert

Number of Field Men:

4

Full Time:

4

Part Time:

None

Do you service loans for any other FNM Office?

No

Name Region and No. of Loans:

Names and addresses of other investors whom you represent, and the approximate number of mortgages serviced for each. (If the list is too long, list at 12/31/70 we do not service FHA and VA loans for any other institutional investors. Servicing for other institutional investors will commence 1971.

C SPECIAL ACCOUNTS

Name and Address of Bank:

National Bank of North America
 60 Hempstead Avenue, West Hempstead, N.Y.

Highest Dollar Balance last year:

\$ 242,361.32

Date of Highest Balance:

10/25/70

Type and Amount of Fidelity Insurance:

Individual \$

40,000.00 Direct Surety \$

Defectible \$

Cancelled to Notify FNM: ☒ Yes ☐ No

Name and Address of Carrier: Maryland Casualty Company - 59 John Street, N.Y., N.Y.
 (90-721587) 10038

Specify Officers or Employees of special risk fidelity coverage:

None

Do you carry Errors and Omissions Insurance? ☐ No ☐ Yes

Furnish a copy of your latest audit report or a copy of last financial statement, certified by a Certified Public Accountant or Public Accountant. If you are a state or federally supervised bank, savings and loan association, a certified copy of last published financial statement is acceptable. Date financial prepared: December 31, 1970 prepared by Wald & Wald, C.P.A.

Are advance notices of mortgage delinquency payments mailed to mortgagors? ☒ YesIf so, how many days in advance? at cut-off

What day of the month do you mail notices of delinquency to mortgagors?

First Notice 10th Second Notice 15th Third Notice 25th

What day of delinquency do you mail notices (not by telephone) with your mortgagors regarding delinquency? Prior to the 75 day of delinquency.

If you service FNM insured loans on more than one building, or on more living units owned by one mortgagor, complete the following schedule:

Name of Mortgagor

Location of Property

Section of Apt.

No. of Units

No. of Living Units

3/8/71

(212) 696-3200

DATE

TELEPHONE NUMBER

Mitchell Chiert

President

TITLE

* increased to \$80,000.00 1/1971

FNMA FORM 108
REV. 11-64

"C"

APPROVED FOR

☒ VA ☒ FHASEILER'S ☒ OR SERVICER'S ☒ RECORD

FOR YEARS 1965 - 1966

Name DALE FUNDING CORPORATION (640) Phone 212-BY 6-8800Address 737 Saratoga Avenue, Brooklyn, New York 11212Area Served Metropolitan New York

Branch Offices _____

Principal Officers Mitchell Chiert, Pres; Charles Shusterhoff, Sec-Treas; Bernard Chiert, V.P.Servicing Supervisor Charles ShusterhoffNo. Field Men 3No. Other
Serv. Emps. 3Other Investors Represented: Bore Investing Corp; Harriet B. ChiertTotal 1965: 185

Highest Dollar Amount in Custodial Account: \$ _____ \$ _____ \$ _____ \$ _____

Fidelity Insurance: ☐ Ind. ☐ Blanket ☐ Direct Surety \$ _____ \$ _____ \$ _____ \$ _____Financial Data: Assets Liabilities Net Worth Net ProfitAs At 9-20-65 \$151,929 \$ 2,939 \$ 150,0002/3/66 174,000.32 2,122.41 175,154.55 \$3,154.28

Handling of Delinquencies:

First Notice 15 da. Second Notice 23 da. Third Notice 33 da. Personal Contacts 28 daysForm 301 Signed 12-6-65 Inactive _____ Terminated _____Form 302 Signed 12-6-65 Inactive _____ Terminated _____

P&S Signed _____ Terminated _____

Triennial Inspection Certificates Rec'd: _____

Field Visits: _____ FNMA Audits _____

Remarks _____

173204-000-1

12 43
APPROVED FOR
☒ VA ☒ FIA

SELLER'S ☒ OR SERVICER'S ☒ RECORD

FOR YEARS 1967 - 1970

(212) 696-3200

Name DALE FUNDING CORPORATION (640) Phone 212-WY 6-9200

Address 9520 Seaview Ave.
787 San Diego Avenue, Brooklyn, New York H-212 ^{cod.} 11236

Area Served New York Metropolitan Area and Suburban Counties

Branch Offices

Principal Officers Mitchell Chiert, President; Charles Shusterhoff, Sec.-Treasurer.

Servicing Supervisor Charles Shusterhoff, Secretary-Treasurer _____

No. Field Men 4 No. Other 2
Serv. Emps 2

Other Investors Represented: Boro Investing Corporation, Harriet B. Chiert, Minna Schaffhauser, Ethel Delman, Marion Fein, Phil Davis, Sam Shusterhoff

Total '66 - 269 '67-320 '68 None- 1970 none

Highest Dollar Amount in Custodial Account: \$ 3,462.10 \$ 10,227.44 \$ 20,340.00 \$ 116,359.88
 Fidelity Insurance: ☐ Ind. ☒ Blanket ☐ Direct Surety \$5,000 \$7,000 \$11,000 \$40,000

Financial Data:	Assets	Liabilities	Net Worth	Net Profit (Loss
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Ap At 12-31-65 174,307. 21,152 153,154 3,154

12-31-66	390,065.	234,744.	155,321	2,166
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12-31-67 435, 797. 277, 911. 157, 886. 2,565.

12.31.68	1,532,604.	1,358,909.	173,095.	15,209.
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17-21-69 1891 085 17 1 682 011 37 209 039:

15-21-01 11:11:02:71 11:54:46:04 8071221

Handling of Delinquencies:

First Notice 5th-10th Second Notice 15th Third Notice 25th Personal Contacts 30th

Form 301 Signed 12/6/65 Inactive Terminated

* Form 302 Signed 12/6/65 Inactive _____ Terminated _____

P&S Signed	Terminated
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Triennial Inspection Certificates Rec'd: 12-26 67

Field Visits: 11-16-65

Remarks _____

1. Reception - Del. % - 4-11-69 (duplicate)

Shells of *Strophomena* from the Devonian of the Allegheny.

* FNMA LETTER 3/16/69 EXECUTED. Visit by officers 6/24/69.

visit by officers 12/12/69; n 12/69

ALS

1025 letter sent 1/21/77

FNMA Form 128
Rev. 2/11/66

APPROVED FOR
☒ VA ☒ FHA

SELLER'S ☒ OR SERVICER'S ☒ RECORD

FOR YEARS 1971 -

Name Dale Funding Corporation (640) Phone 212-696-3200
code

Address 9520 Seaview Avenue, Brooklyn, New York 11235

Area Served New York Metropolitan area & suburban counties

Branch Offices none

Principal Officers Mitchell Chiert, Pres.; Charles Shusterhoff, Sec-Treas.

Servicing Supervisor George Stachury

No. Field Men 4 No. Other Serv. Emps. 2

Other Investors Represented: Boro Investing Corp.

Total: 70' - none

Highest Dollar Amount in Custodial Account: \$111,360¹⁶⁹ \$ \$ \$

Fidelity Insurance: ☐ Ind. ☒ Blanket ☐ Direct Surety \$40¹⁶⁹ \$ \$ \$

Financial Data:	Assets	Liabilities	Net Worth	Net Profit (Loss)
As At 12/31/69	1,891,085	1,682,046	209,039	
12/31/70	2,385,078	2,392,816	322,231	113,197

Handling of Delinquencies:

First Notice 5-10 Second Notice 15 Third Notice 25 Personal Contacts 30

Form 301 Signed 12/6/65 Inactive Terminated

Form 302 Signed 12/6/65 Inactive Terminated

P&S Signed Terminated

Triennial Inspection Certificates Rec'd:

Field Visits: FNMA Audits

Remarks FNMA Letter 3/26/69 executed. 1025 letter sent 1/21/71

AES

DELINQUENCY STATUS - COMBINED CONTRIBUTIONS

"6"

	TOTAL MONTHLY	IN FOLD - CLOSED	DEL 1 MO	DEL 2 MO	DEL 3 MO & OVER	DELIN DETS.	PERCENT DELIN	SERVICING NOTES
Jan. 1961								
Feb.								
March								
April								
May								
June								
July								
Aug.								
Sept.								
Oct.								
Nov.								
Dec.								
Jan. 19								
Feb.								
March								
April								
May								
June								
July								
Aug.								
Sept.								
Oct.								
Nov.								
Dec.								
Jan. 19								
Feb.								
March								
April								
May								
June								
July								
Aug.								
Sept.								
Oct.								
Nov.								
Dec.								
Jan. 1966								
Feb.								
March								
April	2							
May	2							
June	5							
July	6							
Aug.								
Sept.	6							
Oct.	6							
Nov.	6					1	16	
Dec.	16					2	36	

Servicer's Name

Dale Funding Corp.

Debt Outstanding
 DELINQUENCY STATUS - COMBINED OPERATIONS *"B"*

	TOTAL MORTGAGES	IN FORT. CLOSURE	DEL. 1 MO.	DEL. 2 MO.	DEL. 3 MO. & OVER	TOTAL DELIN.	PERCENT DELIN.	SERVICING NOTES
Jan. 1967	14		2		2	2	14.3	
Feb.	18		2			2	11.1	
March	24		1	1		2	8.3	
April	26		1	1		2	7.7	
May	34		2			2	5.9	
June	37			1	1	2	5.4	
July	38		1	1	1	3	7.9	
Aug.	39		2		1	3	7.7	
Sept.	41			1	1	2	4.9	
Oct.	44		1		1	2	4.5	
Nov.	44		3	1	1	5	11.4	
Dec.	45		3		1	4	8.9	
Jan. 1968	47		4		1	5	10.6	
Feb.	48		6		1	7	14.6	
March	53		6	1		7	13.2	
April	56		6	1		7	12.5	
May	57		6			6	10.5	
June	57		5	2		7	12.3	
July	57		5	3	1	9	15.7	
Aug.	58		6	2	1	9	15.5	
Sept.	60		4	4		8	13.3	
Oct.	71		9	1	2	12	16.9	
Nov.	79		9	2	2	13	16.5	
Dec.	87		6	3	4	13	14.9	
Jan. 1969	93	1	8	4	3	15	16.3	
Feb.	104	1	12	5	2	19	18.3	
March	111	1	8	5	3	16	14.4	
April	123	1	4	5	2	11	8.9	
May	123	1	7		5	12	9.8	
June	153	1	8	1	4	13	8.5	
July	210	2	12	5	3	20	9.5	
Aug.	230	2	10	4	7	21	9.1	
Sept.	280	1	14	5	5	24	8.6	
Oct.	313	1	15	6	6	27	8.6	
Nov.	347	1	13	11	7	31	8.9	
Dec.	391	6	13	6	6	25	6.4	
Jan. 1970	421	11	8		4	12	2.9	
Feb.	463	15	18	5	3	26	5.6	
March	505	15	18	8	5	31	6.1	
April	526	15	13	5	6	24	4.6	
May	548	17	21	2	4	27	4.9	
June	579	19	18	12	1	31	5.4	
July	611	17	23	16	9	34	5.6	
Aug.	636	19	23	8	7	38	6.0	
Sept.	662	20	24	12	8	44	6.6	
Oct.	702	22	27	14	6	49	7.0	
Nov.	737	25	30	14	8	52	7.1	
Dec.	748	25	27	13	7	47	6.3	

Servicer's Name _____

Debt Outstanding

DELINQUENCY STATUS - COMBINED OPERATIONS

116

	TOTAL MORTGAGES	IN FORG- CLOSURE	DFL. 1 MO.	DFL. 2 MO.	DFL. 3 MO. & OVER	TOTAL DELIN.	PERCENT DELIN.	SERVICING NOTES
Jan. 19	812	26	29	14	5	48		
Feb.	810	26	29	14	5	4	5.8	
March	829	26	48	11	6	65	77	"special reporting" 4/12/74
April	829	25	30	14	6	52	63	
May	831	24	39	14	5	53	63	
June	833	24	32	14	7	52	58	
July	851	23	27	11	5	51	59	
Aug.	916	22	24	11	5	51	49	
Sept.	935	29	42	12	14	52	54	
Oct.								
Nov.								
Dec.								
Jan. 19								
Feb.								
March								
April								
May								
June								
July								
Aug.								
Sept.								
Oct.								
Nov.								
Dec.								
Jan. 19								
Feb.								
March								
April								
May								
June								
July								
Aug.								
Sept.								
Oct.								
Nov.								
Dec.								

Servicer's Name

DALE Funding Corporation

FEDERAL NATIONAL MORTGAGE ASSOCIATION

MEMORANDUM

MARCH 28, 1972.

To: K. A. Duncan, Regional Vice President, FNMA.
 From: A. W. Miller, Regional Director, Internal Audit, Philadelphia.
 Subject: Audit of Servicer, Dale Funding Corp., Brooklyn, N.Y.

We have examined the records maintained by this Servicer on FNMA mortgages, and reviewed its procedures for servicing these mortgages. The audit began on February 14 and ended on February 25, 1972. At December 25, 1971, the effective date of our audit, Dale Funding Corporation was servicing the following mortgages: FNMA 955 with principal balances of \$20,170,980.89; Itself 242; and other Investors 123.

The Servicer is also administering escrow funds in the aggregate of \$322,355.35 for FNMA.

Servicing fees paid by FNMA during the audit month of December amounted to \$7,267.79, and during the past twelve months the Servicer earned \$80,339.99.

Attachment No. 1 contains 12 findings. All findings were discussed with Mr. Mitchell Chiert, President, who agreed to take appropriate corrective action.

The current audit findings has caused us to classify the Servicer's records and procedures as inadequate. The Servicer's deficiencies are due mainly to (1) inadequate training of personnel in relation to the rapid increase in the number of mortgages serviced for FNMA (since our previous audit as of March 25, 1968, the Servicer's FNMA portfolio has increased from 52 mortgages to 955, and (2) failure to insist that the Service Bureau (Financial Services Inc.) maintain records and accounts in line with FNMA's requirements. Incidentally, we believe that most of the Servicers in the New York City area who use the above service bureau will have continuing problems in maintaining and producing acceptable records and reports until the bureau reprograms its processing of transactions for the Servicers involved.

In regard to the findings reported in this audit, we recommend that the Servicer be required to confirm agreement to clear all findings, describe in detail the action taken to clear findings No. 1, No. 3, No. 4, No. 5 and No. 6, and complete the reconciliation required by finding No. 2 and submit a schedule to FNMA showing the reconciled items.

In our opinion, the Servicer should be given an opportunity to establish the procedures and controls outlined in the numerous findings and an accelerated audit (within a year) be made. If by that time the Servicer's performance has not improved materially, it is our opinion that consideration should be given to a transfer of servicing.

The Appendix to this report contains additional information and comments concerning the Servicer's activities.

We shall appreciate a copy of your letter to Mr. Mitchell Chiert, President, confirming the agreements for clearance and a copy of the Servicer's reply.

ARTHUR W. MILLER.

Re audit of servicer, Dale Funding Corp., Brooklyn, N.Y.

ATTACHMENT No. 1

FEDERAL NATIONAL MORTGAGE ASSOCIATION, INTERNAL AUDIT DIVISION—
 FIELD OFFICE, PHILADELPHIA

DEFICIENCIES WHICH THE SERVICER AGREED TO CORRECT

1. *Servicer's records not in agreement with FNMA's trial balance of unpaid principal accounts.*—Prior to our visit, FNMA had furnished the Servicer with an Aggregate Exception System Trial Balance at December 25, 1971. During our visit, the Servicer compared the trial balance with its mortgage ledger cards and the reconciliation showed 14 loans with balances not in agreement with FNMA's records, although in all cases the dates of the last paid installments were in agreement. The loans involved are shown on Exhibit A-1 attached.

The Servicer has not followed a practice of reviewing and analyzing FNMA's Monthly Exception Update Listing (FNMA Form 476) in order to determine the adjustments and/or correcting reports required to bring its records and FNMA's records into agreement.

(a) Mr. Mitchell Chiert, President, stated that the Servicer would examine each of these cases to determine the correct principal balance and then take the required corrective action to bring the records of FNMA and the Servicer into agreement. He also stated that in the future, the Servicer would review the reports from FNMA when they are received and determine if any corrective action is required.

2. *Escrow control account (col. 1 of FNMA form 179) not in agreement with trial balance of escrow and month-end overdrafts of principal and interest (col. 2 of FNMA form 179) not identified.*—(1) The control account of escrow funds as reported on line 13, column 1 of Form 179 (Report of FNMA Custodial Account) for the month of December was less than the total of the escrow trial balance at December 25, 1971 by \$34,768.37 (mostly advances posted, but not made finding #4).

The Servicer had sent a reconciliation to the deposit account to FNMA Washington Office along with the required semi-annual trial balance, but it included an amount of \$65.35 termed "not reconciled."

(2) The month-end balance of FNMA Principal and Interest on the FNMA Form 179 (Col. 2) showed a deficit of \$7,416.99. The Servicer did not identify the nature of this balance during our visit.

(a) Mr. Chiert stated that the Servicer will review prior transactions in the FNMA Account to the extent necessary to reconcile the escrow control account with the mortgage escrow balances and to identify and properly adjust the month-end deficit balance of Principal and Interest. From now on, reconciliations will be made monthly.

3. *NSF checks not reversed on loan ledgers.*—The Servicer's procedures did not provide for NSF checks to be reversed if they were not made good promptly after being returned from the bank a second time.

Twenty-one checks requiring payment reversals were on hand at the time of audit. The advices from the bank stating that these checks would not be honored dated as far back as April of 1970. The Servicer's failure (over an extended period) to reverse NSF checks on mortgagors' records also resulted in the inaccurate reporting of month-end delinquencies.

(a) Mr. Chiert instructed the service bureau to reverse the payments represented by these checks, or to reverse the latest payment credited, where appropriate. He stated that in the future he will see that all payments requiring reversal because of NSF checks will be reversed on the mortgagor's permanent payment record immediately upon notice that a check has been returned after being presented twice. During the audit, Mr. Chiert made arrangements with the bank to automatically present NSF checks a second time for payment, to avoid the possibility of delays by the bookkeeping department in redepositing such checks.

4. *Escrow overdrafts not covered as required.*—(Sec. 124.01 Servicers Guide):

The computer program used by the Servicer's service bureau (F.S.I.) prohibits a negative escrow balance from appearing on the trial balance of escrow or on a mortgagor's loan ledger.

If a disbursement is made that is greater than the mortgagor's balance of escrow on hand, a separate receivable card is produced and the word "ADVANCED" is printed in the description column on the mortgage ledger card. (This is misleading because no actual cash advance is made at the time of the disbursement.)

The Servicer does not analyze the so-called "advances" made during a month and then make a deposit of his own funds into the FNMA Custodial Account to cover the actual overdraft that has occurred. There was a fixed deposit in the Custodial Account of \$11,992.66, but this was obviously insufficient as the "advances" at 12/22/71 totaled \$33,368.16.

During our visit the Servicer computed the total overdrafts and as a result deposited an additional sum of \$24,157.01 into the FNMA Custodial Account on 2/22/72.

(a) Mr. Chiert stated that in the future this computation will be made at the end of each reporting period and the Servicer's deposit of advances will be adjusted to the true amount of overdrafts in the escrow account.

5. *Escrow analysis inadequate; arrangements not made to collect shortages.*—(Sec. 207 Servicers Guide):

The Servicer did not make an analysis of all of its deposit accounts in 1971, so that for some mortgages purchased in 1970 it will be as long as 25 months before an analysis is made (February 1972). The service bureau computer produced analyses in March of 1971 but only for those accounts where the Servicer had paid the taxes. The Servicer did not make any manual analyses to cover this deficiency.

The machine analysis did not consider the amount of any existing shortage (except overdrafts) in determining the new monthly payment and as a result no arrangements were made to bill the mortgagor and collect such shortages.

(a) Mr. Chiert stated that all accounts would be analyzed at least annually in the future, by hand when necessary for new loans and that shortages would be considered in determining the amount of the monthly payment for each twelve month period.

6. *Remittances to FNMA not made as required.*—(Sec. 205 Servicers Guide):

To comply with the FNMA requirement of making interim remittances of regular collections whenever \$2,500.00 has been collected, the Servicer should have made at least 16 such remittances during the month of audit (December 1971). However, only six interim remittances were made.

The Servicer's procedures do not provide for an exact determination of the distribution of each day's collections to principal and interest. Instead, at periodic intervals, the Servicer remits approximately 60% of the collections (on hand) to FNMA. This procedure results in a large adjusting figure on the final month-end remittance (over \$16,000.00 in December) and withholds funds from FNMA during the month; for example, after collections of December 10, \$107,746.28 of principal and interest had been deposited in the bank and only \$84,000.00 of it had been remitted to FNMA.

(a) Mr. Chiert stated that in the future, the Servicer will remit funds to FNMA as soon as \$2,500.00 of principal and interest has been collected by applying a percentage of collections for remittance that will closely approximate the exact amount due FNMA.

7. *Inadequate records of balances of unapplied funds.*—(Sec. 202 Servicers Guide):

The "Loan Ledger" produced by the service bureau (Financial Services, Inc.) used by the Servicer does not provide space to indicate the latest outstanding balances of unapplied payments as required under Section 202 of the FNMA Servicers Guide.

No other suitable record of such balances, which might be considered a part of each mortgagor's permanent account record, is maintained by the Servicer. Evidence of this appears in the listing of negative unapplied balances on Form 179 (Monthly Report of Custodial Account) in support of Column 6 (Other) thereof. A laborious reconstruction by the Servicer of all entries of unapplied funds during the year was required to explain these balances and determine necessary corrections.

(a) Mr. Chiert stated that the Servicer will maintain a hand-posted ledger card, to be considered a part of the mortgagor's permanent payment record, that will reflect the debits, credits and balances of all transactions that a mortgagor may have, involving unapplied funds.

8. *Month-end delinquency reports late and inaccurate.*—The month-end delinquency report (Form 437) and its supporting list of delinquent loans (Form 470) were filed late in October, November and December of 1971, and follow-up letters from the Philadelphia Regional Office were sent to the Servicer.

Examination of the loans crossed off the November Report of Delinquencies (Form 470/Code 50) filed as of the cut-off date to arrive at the number of delinquent accounts (used in the month-end ratio computation) revealed seven loans that were improperly deleted. Five of these were received on the first or second day of December, but had been postmarked in November. The other two loans had back payments made on them in the period between cut-off and month-end but the current payments were still due at November 30. Inclusion of these seven loans as delinquent would change the reported delinquency ratio of 6.9% to 7.6%.

(a) Mr. Chiert stated that the reports noted above as being delayed, had been inadvertently sent to FNMA's Washington Office and that the Servicer would make sure that delinquency data be sent to the Philadelphia Office in the future. Mr. Chiert also stated that only the payments actually received in the Servicer's office by the last day of a month would be deleted from the cut-off report, and that they would delete loans only when the payment brought the account current.

9. *Report of custodial account not prepared correctly; balance of principal and interest not analyzed.*—The Servicer's Report of FNMA Custodial Account (Form 179) was not prepared correctly as shown below:

(i) The excess T & I computation (line 11, column 1) was not completed at 12/25/71. It should have shown an amount of \$142,862.73 to be remitted to FNMA, or an explanation given or retaining these funds.

(ii) Application of previously unapplied funds was not shown on line 4 (Adjustments and Reapplications).

(iii) The nature of the unapplied funds listed in support of the balance of column 6 (Other) was not shown.

(iv) The date of receipt of the amounts itemized as deposits in transit (line 15) was not shown.

(v) The dates of the checks itemized as outstanding checks (line 17) were not shown, nor was any explanation given of the action taken to clear three of them outstanding for more than three months. Two of these three checks were voided, but the cash book balance had not been increased accordingly.

(vi) The amount of a check drawn by the Servicer to FNMA to make up for excessive service fees withdrawn in a prior month was reported in column 3 (Service Fees From Mortgagors) instead of in column 2 (FNMA Principal and Interest).

(a) Mr. Chielt stated that the Servicer will take the following steps to cure the above noted deficiencies (the numbering of these steps corresponds to that of each item above):

(i) Starting with the report for February 1972, the computation of excess T & I funds will be completed in the future and any excess either remitted promptly to FNMA or an explanation will be given as to reasons for retention of the funds in whole or in part.

(ii) Line 4 will be used to record the application of unapplied funds in the future.

(iii) The nature of unapplied funds (e.g., partial payments, rejections of payments by the service bureau) will be shown when explaining the balance of column 6 (Other).

(iv) Dates of receipt for deposits in transit will be shown.

(v) Dates of checks listed as outstanding will be shown and notations made of the Servicer's efforts to clear checks outstanding for more than three months. Also, the cash book will be adjusted for the voided checks that were listed.

(vi) Checks drawn by the Servicer to adjust service fees to the amount computed by FNMA will be recorded in the proper column in the future.

10. *Dates on mortgage ledger cards not adequate.*—The dates shown on the individual loan ledgers are not satisfactory in the following situations:

(i) The date of transfer of escrow funds after purchase of a loan by FNMA is not shown on the ledger.

(ii) The date of receipt of regular installments is shown as one day later than actual receipt by the Servicer in instances when the service bureau combined two days' work into a single run.

(iii) The date of disbursements from escrow is not the same as the date of the related check in many cases. (Delays of 5 to 13 days were found.)

"B"

Form 1
Rev. 2-5-70To: FEDERAL NATIONAL BANK AND TRUST
211 South Broad Street
Philadelphia, Pa. 19106

Date: February 11, 1971

FIRST NAME, ADDRESS AND CITY: **EASTERN SERVICE CORPORATION**
175 Fulton Avenue
Hempstead, New York 11550

Account: **IV 3-4200**
 Service File No: **#550**
 13133-000-6

Area of Operation: **Metropolitan New York**

Branch Offices and Addresses:

Eastern Service Corporation
2801 Ponce DeLeon Blvd.
Coral Gables, Florida

Branch Manager:

Mr. Al Bernstein, Vice President

Name and Title of Branch Manager: **Harry Bernstein, President; Louis B. Bernstein, Exec. V. P.; Laurence J. Sharkey, Vice Pres. & Sec'y.; Roger Fred, Vice Pres. & Controller; Vice Presidents: Frank Fey, Emanuel Hirsch, Larry Taylor**

Sponsoring Supervisor:

Laurence J. Sharkey, Vice President

Sponsoring Supervisor:

Ronald Cusano, Collection Supervisor

Person to Contact if Needed:

(Mrs.) Bea Blank

Person to Contact for Accounting Reports:

Roger Fred, Vice President

Number of Field Offices:

5**4****1**

Does service loans include:

NO

in Region and No. of Loans:

Name and address of lender and the approximate number of mortgages serviced for each:

See List Attached**CUSTOMER ACCOUNT**

Name and Address of Bank:

The Chase Manhattan Bank**260 Broadway, Bklyn., NY 11211**

Date of highest balance:

144,929.66**12/24/70**

GMA

23,907.22**12/24/70**

Type and Amount of Financing:

Individual \$ **1,200,000.00**Deductible \$ **0.00**

Name and Address of Carrier:

The Continental Insurance Company**80 Maiden Lane, N. Y., N. Y. 10038***** Endorsement Attached**

Specify Other:

None

Do you carry Equity and Credit?

Yes**500,000.00**

Furnish a copy of your financial statement, certified by a Certified Public Accountant, to the state of Florida; a certified bank or savings and loan statement is acceptable. Date fiscal year ends: **12/31/70 (report to follow)**

Are advance notices given?

6-8**Yes**

If so, how many days in advance?

First Notice **10-12****16-18****23-25**

What day of delinquency is given?

repeating delinquency is: **60**

If you service FNM:

by one mortgage, complete the:

None

Date of Mortgage

2/11/71
DATE

516-IV.3-4200
TELEPHONE

Vice Pres. & Secretary
TITLE

Mortgages Serviced by MASTERS SERVICE CORP. as of DECEMBER 31, 1970

COMPANY	NO. OF MORTGAGES	Address
Manufacturers Hanover Trust Co	80	- 350 Park Ave., NY, NY 10022
Manch, Inc.	175	- c/o The Chase Manhattan Bank, 1 Chase Manhattan Plaza, N.Y., N.Y. 10015
Community Bank	9	- 15 Atlantic Ave., Lynbrook, New York
Soft Drink Workers Union	6	- 799 Broadway, N.Y., N.Y.
Dime Savings Bank of Wms.	132	- 209 Havemeyer St., Bklyn, NY
Nassau Savings & Loan Assn.	4	- 2815 Atlantic Ave., Bklyn, NY
APL/CIO Staff	121	- 815 16th St., N.W., Washington, D.C.
Chase Manhattan Bank	2105	- 1 Chase Manhattan Plaza, NY
National Bank of North America	22	- 60 Hempstead Ave., West Hempstead, New York 11512
VALLEY NATIONAL BANK	24	- Montauk Hw., Hampton Bays, New York
First National Bank of Boston	4	- 1 Federal Street, Boston, Massachusetts
Operation Engineers Pension Trust Fund	6	- c/o Carday Associates 1003 K St., N.W., Washington, D.C.
INVESTORS CENTRAL MGT. CORP. for Road Carriers Local 707	34	- c/o Investors Central Mgt. Corp. 220 E. 42nd St., NY, NY 10017
Bankers Trust Company	71	- 280 Park Ave., N.Y., NY 10017
Trustees of Industry & Local 333 Pension Fund	59	- c/o County National Bank 43 Market St., Poughkeepsie, New York
Mamaroneck Federal Savings & Loan Association	11	- 300 Mamaroneck Avenue Mamaroneck, NY 10543
Larchmont Federal Savings & Loan Association	96	- 1940 Palmer Ave., Larchmont, New York
Barton Savings & Loan Assn.	9	- 1106 Raymond Blvd., Newark, New Jersey
Buffalo Savings Bank	926	- 545 Main St., Buffalo, NY
New Hampshire Savings Bank	120	- 27 North State St., Concord, New Hampshire, N
First Federal Savings & Loan Association of Ohio	23	- State at 12th Street Erie, Penna. 16512
Federal National Mortgage Assn.		- 211 South Broad St., Philadelphia, Penna. 19107
APL/CIO Organizers	17	- 815 16th St., N. W. Washington, D. C.
Boilermaker-Blacksmith National Pension Trust	28	- Brotherhood Bldg., Rm. 522 Kansas City, Kansas 66101
I. B. E. W.	31	- 97 Gazza Blvd. Farmingdale, New York
General Building Laborers	33	- 1600 Walt Whitman Rd. Melville, L. I., NY 11743
Prudential Insurance Co. & its Mortgagees	667	- 250 Broadway New York, New York 10007
Allied Federal Savings & Loan Association of New York	36	- 115-02 Merrick Blvd. Jamaica, N. Y. 11434
UNION BUILDING CORP.	52	- 8000 E. Jefferson Detroit, Michigan 48214
Metropolitan Life	621	- 1 Madison Avenue New York, New York

AES 12/26/70

FNMA Form 124
Rev. 2/11/66

13133-000-6

APPROVED FOR

☒ VA ☐ FIASELLER'S ☒ OR SERVICER'S ☒ RECORD

FOR YEARS 1971

2/2-546-4200

516-

Name Eastern Service Corporation (550) Phone 423-4200Address 175 Fulton Avenue, Hempstead, New York 11540Area Served N.Y. Metropolitan AreaBranch Offices Eastern Service Corp., 2801 Ponce DeLeon Blvd., Coral Gables, FloridaPrincipal Officers Harry Bernstein, Pres., Louis B. Bernstein, Exec. V.P., Lawrence J. Sharkey, Vice Pres. & Sec'y, Roger Fred, Vice Pres. & Controller &Frank Eay, Emanuel Hirsch, Larry Taylor, Vice PresidentsServicing Supervisor Lawrence J. Sharkey, Vice President *Lawrence J. Sharkey*

5

No. Field Men 4No. Other 1

Serv. Emps.

Other Investors Represented: Chase Manhattan Bank, 24 5- Buffalo Savings Bank, 200Prudential Insurance Co., 667 Total 5842 Total Investors 39Highest Dollar Amount in Custodial Account: \$11,500.00 \$ \$ \$Fidelity Insurance: ☐ Ind. ☒ Blanket ☐ Direct Surety \$ \$ \$ \$

Financial Data: Combined with Affiliates Liabilities Net Worth Net Profit (Loss)

As At 12/31/70 20,423,200 17,971,300 2,552,400 323,666*Estimated 12/31/70* 16,800,000 14,000,000 2,800,000 320,000Fiscal
Year
Ends
12/31

Handling of Delinquencies:

First Notice Second Notice Third Notice Personal Contact

Form 301 Signed 5/1/71 Inactive Terminated* Form 302 Signed 6/1/60 Inactive Terminated

P&S Signed Terminated

Triennial Inspection Certificate Rec'd.

Field Visits: FNMA Audits 7/1/71

Remarks

*FNMA Letter 3/21/69 Executed

Transfer of Servicing from Nat'l Bk. of N.A. to Eastern 1/26/7

Transfer of Servicing from Bk. of N.Y. to Eastern 11/25/70

Services for Brewster Reserve Corp.

5/12/71 - Trans. 3/1/71 - 100,000,000 - 100,000,000 - 100,000,000 - 100,000,000

FNMA Form 128
Rev. 2/11/66

APPROVED FOR
☒ VA ☒ FHA

SELLER'S ☒ OR SERVICER'S ☒ RECORD

FOR YEARS 1966 - 1970

Name EASTERN SERVICE CORPORATION (550) Phone 516-483-4200
Address 175 Fulton Avenue, Hempstead, New York 11550
Area Served N.Y. Metropolitan Area
Branch Offices _____

Principal Officers: Harry Bernstein, President Frank A. Fey, V.P. Laurence J. Sharkey,
Secretary: Ben Shorestein, Treas. Elisabeth Clendinning, Asst. Secy. V.P.
Thomas Reynolds, Mortgage Adm. REGUL. FRED. CONTROLLER
JOHN BOSTA, DTC. ADM. W.A. HAFIDIAN, EXEC. ASST.
Serving Supervisor Laurence J. Sharkey Tom Reynolds John J. BOSTA, MFC ADP.
ELL BOSTA, MFC Admin

No. Field Men 2354 No. Other 956
Serv. Emps. _____

Other Investors Represented: Chase Manhattan Bank, Buffalo Savings Bank, Manch, Inc.
168-2540-2415 851-20445 275-24882

Total loans other investors - 4354 # of mts. 67 26 investors; 162-8274/29
Highest Dollar Amount in Custodial Account: \$1011.40 \$66,723 \$12,741.43 \$580,981
Fidelity Insurance: ☐ Ind. ☒ Blanket ☐ Direct Surety \$100,000 \$400,000 \$500,000 \$500,000
Financial Data: Assets Liabilities Net Worth Net Profit (Loss)
As At 12-31-66 \$1,234,418.27 \$1,454,279.54 \$1,100,638.75 \$199,636.13
12-31-67 14,250,585 12,002,216 2,248,369 _____
12-31-68 18,304,241 18,009,711 1,504,824 414,803
12-31-69 21,110,966 18,476,048 2,634,918 769,747
12-31-69 18,664,145 15,141,083 3,548,660 _____

Handling of Delinquencies:

First Notice 5th Second Notice 14th Third Notice 21st Personal Contacts 45 DAYS
Form 301 Signed 5-16-60 Inactive _____ Terminated _____
* Form 302 Signed 6-1-60 Inactive _____ Terminated _____

P&S Signed _____ Terminated _____

Triennial Inspection Certificates Rec'd: 10-2-67

Field Visits: _____ FNMA Audits 11/25/67

Remarks Received 11-66 1965 Annual Report so in Dec. file
Substantive - Delinquency 10-21-69 (Indefinite)

X FNMA LETTER 3/1/69 EXECUTED

Transfer of Servicing from Nat. Bk of N.Y. to Eastern 10/26/70

Transfer of Servicing from Skutumpah Corp. N.Y. to Eastern 11/25/71

Servicing for Parameter License Corp.

DELINQUENT STATUS - COMBINED OPERATIONS

"G"

	TOTAL MORTGAGES	IN FORE- CLOSURE	DEL. 1 MO	DEL. 2 MO	DEL. 3 MO & OVER	TOTAL DELIN	PERCENT DELIN	SERVICING NOTES
Jan. 1967	12							
Feb.	45		5			5	11.1	4-19
March	87		3	1		4	4.6	
April	96		4	3		7	7.3	
May	107		10			10	10.3	6-6
June	101		5	3		8	6.6	
July	123		5	3		8	6.5	
Aug.	134		9	3	1	13	9.7	
Sept.	165	1	7	4		11	6.7	Del. letter 11/17.
Oct.	213	1	23	2	2	27	13.7	
Nov.	266	1	13	2	2	17	6.4	
Dec.	322	1	49	1	4	54	16.7	
Jan. 1968	435	2	21	22	2	45	10.4	EV 1-15-68;
Feb.	549	3	50	10	3	63	7.9	
March	704	3	62	12	5	80	11.4	
April	837	3	55	11	6	72	8.6	
May	934	4	75	13	7	95	10.2	
June	992	7	86	17	5	108	11.4	
July	1010	9	98	23	14	134	13.3	
Aug.	1024	17	99	31	13	143	14.1	
Sept.	1032	24	137	33	9	169	16.8	
Oct.	1067	30	102	30	10	162	13.7	
Nov.	1133	33	104	30	9	163	14.8	
Dec.	1189	32	160	35	15	213	18.4	
Jan. 1969	1260	33	141	40	14	235	19.2	Del. 2/1 - 2-13-69
Feb.	1420	35	223	56	23	325	26.5	900 8/3/69 Resolution 4-11-69
March	1534	43	165	45	11	321	14.4	Rich. O'Leary 5-25-69 M.G.
April	1643	38	167	43	10	320	13.4	Keel notified by Bernstein, Bankrupt, 5/1/69
May	1790	41	169	46	14	329	12.5	Keel notified 6/3/69 to discontinue work on 12-15-69
June	2020	41	125	25	17	167	8.3	Keel notified 6/3/69 to discontinue work on 12-15-69
July	2151	48	190	37	23	189	8.8	Keel notified 6/3/69 to discontinue work on 12-15-69
Aug.	2258	54	177	50	21	248	10.9	Keel notified 6/3/69 to discontinue work on 12-15-69
Sept.	2437	54	76	54	13	143	5.9	EV - 8/12/69 10-6-69 Visit Carter & Son
Oct.	2637	54	76	54	13	143	5.9	Continued problem - 12/15-69
Nov.	2664	82	54	33	58	145	5.4	Resolution lifted 12-10-69
Dec.	2959	413	153	35	35	223	7.5	
Jan. 1970	3120	133	83	36	32	173	5.5	
Feb.	3478	135	145	56	58	259	7.4	
March	3688	143	263	63	68	394	10.7	
April	3941	202	120	57	43	320	5.8	
May	4093	213	154	61	34	289	6.1	
June	4339	231	130	70	37	317	5.1	
July	4429	241	122	61	32	215	4.9	
Aug.	4592	247	115	47	41	210	4.6	
Sept.	4676	274	117	56	42	215	4.6	
Oct.	4773	269	130	50	57	237	5.0	
Nov.	4816	276	141	42	41	212	5.4	
Dec. 68	5074	284	255	60	24	334	6.7	

Servicer's Name EASTERN SERVICE Corporation

"G"

EASTERN SERVICE CORPORATION

DELINQUENCY STATUS - COMBINED OPERATIONS

	TOTAL MORTGAGES	IN FORE- CLOSURE	DEL. 1 MO	DEL. 2 MO	DEL. 3 MO & OVER	TOTAL DELIN	PERCENT DELIN	SERVICING NOTES
Jan. 1971	5224	298	213	69	30	312	6.0	
Feb.	5220	303	316	63	24	403	7.7	
March	5229	306	247	40	104	307	5.9	
April	5220	321	306	78	30	405	7.7	
May	5242	308	275	82	46	403	7.7	
June	5244	320	303	66	17	386	7.2	
July	5205	321	325	72	14	324	6.2	Letter from Eastern 9/14/71
Aug.	5263	296	292	57	15	324	6.2	Letter to Eastern from N. Bureau 5/13/71
Sept.	5299	271	294	62	17	323	6.0	
Oct.								
Nov.								
Dec.								
Jan. 19								
Feb.								
March								
April								
May								
June								
July								
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Dec.								

(a) Mr. Chiert stated that he would instruct the service bureau to: (i) reflect on the ledger card the date escrow funds are transferred; (ii) post each day's work as a separate run showing the true dates of collection; (iii) show disbursement dates as the transaction dates indicated by the Servicer rather than the posting dates now used.

11. *Collection efforts not adequately documented; reports not filed promptly.*—The Servicer did not have adequate records on each delinquent mortgage to enable a reviewer to determine that a sufficient effort at collection of past due payment was being made.

In at least five cases the FNMA Form 145 (Residential Loan Service Report) was filed from 21 to 66 days late (average 48 days). Mr. Chiert was not aware that this form must be filed in default cases by the 90th day of delinquency to summarize loan servicing action (not just to recommend foreclosure).

(a) Mr. Chiert stated that the Servicer has hired a full-time collection man who will fully report on all phone calls and personal contacts with delinquent mortgagors, and that copies of all correspondence with mortgagors will go into their files. He also stated that the Forms 145 would be filed timely in the future.

12. *Deficiencies in handling foreclosure cases.*—In the examination of five cases that have been in foreclosure for extended periods, we did not find evidence to show that the Servicer has maintained an adequate follow up with Field Counsel and/or maintained adequate communication with FNMA on the progress of foreclosure and causes of delay. These cases are as follows:

Mortgagor	Loan No.	Date referred to field counsel	Comments
Williams.....	1-31-803134-7	Nov. 19, 1970	Except for payment of foreclosure costs on Sept. 27, 1971, we found no record of contact by servicer with field counsel until January 1972.
Fain.....	1-31-800052-0	Jan. 20, 1971	On Nov. 19, 1970 regional office contacted servicer to expedite foreclosure action. VA cut-off interest on Jan. 3, 1972 (due to extended period).
Santana.....	1-31-804066-1	Jan. 26, 1971	No record of servicer's contact with field counsel until January 1972.
Rieber.....	1-31-805511-1	Apr. 28, 1971	In contacts with field counsel, servicer not successful in expediting the foreclosure.
Hart.....	1-31-804717-6	July 13, 1971	Received bill (Oct. 25, 1971) from field counsel for title search, etc. Servicer wrote to field counsel on Feb. 22, 1972 requesting status of case.

(a) Mr. Chiert and Mr. Charles Shusterhoff, Secretary-Treasurer, stated that the Servicer had already started to follow up with Field Counsel more closely on foreclosure cases, and that in the future they would advise FNMA promptly when Field Counsel did not cooperate.

FEDERAL NATIONAL MORTGAGE ASSOCIATION, INTERNAL AUDIT DIVISION FIELD OFFICE, PHILADELPHIA

Loan No.	Differences in principal balance between servicer and FNMA, at Dec. 25, 1971		
	FNMA's balance	Servicer's balance	Difference
131-503788-3.....	\$21, 479. 93	\$21, 515. 08	(\$35. 15)
131-509829-1.....	17, 132. 77	17, 131. 46	1. 31
131-511849-3.....	22, 009. 09	21, 976. 49	32. 60
131-705546-3.....	19, 578. 94	19, 552. 03	26. 91
131-805364-4.....	18, 322. 97	18, 310. 46	12. 51
131-805512-3.....	35, 457. 57	35, 433. 42	24. 15
131-804459-0.....	18, 186. 41	18, 185. 00	1. 41
131-806214-0.....	19, 821. 44	19, 761. 31	60. 13
131-806575-2.....	27, 218. 31	27, 216. 06	2. 25
131-806693-8.....	10, 360. 88	10, 309. 44	51. 44
131-807377-3.....	24, 397. 56	24, 582. 39	(184. 83)
131-807596-5.....	21, 368. 14	21, 384. 52	(16. 38)
131-808027-1.....	19, 899. 35	19, 895. 90	3. 45
131-802223-1.....	30, 618. 94	30, 618. 77	. 17
Total.....	305, 852. 30	305, 872. 33	(20. 03)

FEDERAL NATIONAL MORTGAGE ASSOCIATION, INTERNAL AUDIT DIVISION,
FIELD OFFICE, PHILADELPHIA

APPENDIX TO AUDIT REPORT

SERVICER'S HANDLING OF DELINQUENCIES

Re audit of servicer, Dale Funding Corp., Brooklyn, N. Y.

The Servicer's overall delinquency ratio at December 31, 1971 was 6.8% on a portfolio of 1,303 mortgages, as compared to 8.2% for FNMA mortgages. A copy of the delinquency report on the Servicer's total portfolio is available in our working paper files if the Regional personnel wish to examine it.

Mr. Mitchell Chiert, President, stated that the delinquency procedures for other investors do not differ from those used for FNMA.

At the request of Regional Office Management, the Servicer's representatives visited the Regional Office on 2/9/72 to discuss with Regional Office officials certain servicing deficiencies, particularly, the high delinquency ratio. The Servicer's report at February 29, 1972 shows a delinquency ratio of 6.8%.

FEES COLLECTED FROM MORTGAGORS

The Servicer collects a \$25.00 fee for mortgages paid in full (satisfaction fee) and has charged such fees to FNMA mortgages.

Field Auditor: Charles M. Brinton.

MARCH 30, 1972.

To: A. W. Tibbetts, Director, Internal Audit, FNMA, Washington.

From: A. W. Miller, Regional Director, Internal Audit, FNMA, Philadelphia.

Subject: Audit of servicer, Dale Funding Corp., Brooklyn, N. Y. (deficiencies in reports to Loan Accounting Division).

Finding #9 of our audit report dated March 28, 1972, shows that the Servicer was preparing the Reports of the FNMA Custodial Account (FNMA Form 179) incorrectly and was not remitting excess escrow funds to FNMA.

These deficiencies, which were evident from our perusal of the December 1971 report, are as follows:

- (1) The amount of the excess T & I funds (line 11, col. 1) was not shown. From our computations, we determined that the Servicer should have remitted \$142,862.73 to FNMA. The Form did not include an explanation for the Servicer's failure to complete the computation or any reason for retaining the funds.
- (2) Detailed information was not given regarding the unapplied funds included in the month-end balance of col. 6 (Other).
- (3) The dates of receipt of the amounts itemized as "Deposits in Transit" (line 15) were not shown.
- (4) The dates of the checks listed as outstanding (line 17) were not shown and no explanation was given for the non-clearance of three of the checks that were outstanding for more than three months.

The copies of correspondence received with our preliminary audit working paper package did not indicate that the Loan Accounting Division had contacted the Servicer in regard to these deficiencies in the preparation of the Form 179.

ARTHUR W. MILLER.

FEDERAL NATIONAL MORTGAGE ASSOCIATION, INTERNAL AUDIT DIVISION,
FIELD OFFICE, PHILADELPHIA

MARCH 30, 1972.

Re audit of servicer, Dale Funding Corp., Brooklyn, N. Y. (deficiencies in reports to the regional office).

MEMORANDUM FOR FILE

The following findings in our audit report dated March 28 show certain deficiencies of the Servicer in submitting reports to, and communicating with, the Regional Office:

Finding number and nature of deficiency

- 8 The month-end Delinquency Reports (FNMA Form 437) were filed late for the three months preceding the date of our audit.

- 11 In at least five cases, the Loan Service Reports (FNMA Form 45) were filed from 21 to 66 days (average 48) after the due dates.
- 12 The Servicer did not maintain an adequate follow up with Field Counsel or with FNMA on the progress of foreclosure cases.

Prior to the date of our audit report, the Regional Office had contacted the Servicer regarding the above deficiencies. These contacts were by telephone, letters and in addition, a meeting with the Servicer's representatives was held in the Regional Office.

ARTHUR W. MILLER.

DALE FUNDING CORP.,
Brooklyn, N.Y., May 12, 1972.

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
Philadelphia, Pa.
(Attention of Mr. Kenneth Duncan).

GENTLEMEN: This will acknowledge receipt of your letter dated April 25, 1972. We are taking the following steps to improve our internal controls and comply with the recommendations of your Auditor, Mr. Brinton.

1. We have hired a Certified Public Accountant Mr. Angelo Carbone to supervise all Mortgage Service Operations and Internal Auditing.

2. We have hired a full time employee whose duties are limited to the supervision of delinquencies and the filing of required reports with the FHA, VA and FNMA.

3. The Attorney for Dale Funding Corporation, Bernard Chiert, has now assumed the obligation of following foreclosures in progress and the filing of required reports to Field Counsel, FHA, VA and FNMA.

4. In addition to the above we have employed additional clerical help.

In reference to Items 1 thru 12 we are taking the following corrective step measures.

1. *Servicer's records not in agreement with FNMA's trial balance of unpaid principal accounts*

Several of the errors were due to incorrect balances carried by Dale Funding Corporation and several of the errors are apparently due to incorrect balances carried by the FNMA.

On Mar. 7, 1972 we wrote to the FNMA in Washington, D.C., requesting that they analyze the loans which we believe you are carrying at incorrect balances. We have corrected our loan balances and brought them to schedule.

2. *Escrow control account (col. 1 of FNMA form 179) not in agreement with trial balance of escrows and month-end overdrafts of principal and interest (col. 2 of FNMA form 179) not identified*

- A. We expect the Certified Public Accountant now in our employ to establish tight internal controls and to reconcile Line 13 Column 1 of Form 179 with the totals of individual escrow balances.

- B. The reconciliation of the P&I on Form 179 reflects payments in conformance with the P&I due under the AES Reports. We will analyze Form 179 to see how 179 shows a monthly deficit, whereas the AES Report shows a balance due to the FNMA. Mr. Carbone our Internal Auditor intends to reconcile these items but has not as yet done so.

3. *NSF checks not reversed on loan ledgers*

At the suggestion of Mr. Brinton, we advised the National Bank of North America to redeposit NSF Checks when returned for non-payment and requested that if these checks were returned a second time, to return same to us, at which time we would reverse the entry on our books. However, we found that the Custodial Bank was redepositing all checks regardless of the number of times they were returned, thus causing confusion in the bookkeeping records. When requested to redeposit these checks only *One* time and then return these items to our office if not collected, they said that they would be unable to maintain this type of control. We then decided to handle all NSF Checks in our Bookkeeping Department, and if these checks are marked NSF a second time, to immediately reverse the payment on the mortgagors permanent ledger.

4. *Escrow overdrafts not covered as required*

We are carefully checking Form 179 each month to insure that the fixed deposit is sufficient to cover over-drafts in individual T&I Accounts.

5. Escrow analysis inadequate: Arrangements not made to collect shortages

All accounts were analyzed as of March 1, 1972 and all accounts will be analyzed at least once within every 12 month period.

6. Remittances to FNMA not made as required

Mr. Carbone our Auditor is advised of the requirement, that funds be remitted to FNMA as soon as \$2,500.00 on P&I is collected.

7. Inadequate records of balances of unapplied funds

Although the loan ledger produced by Financial Services, Inc., does not show the balance in the mortgagors unapplied account the monthly billing statement to the mortgagor shows this total. At the suggestion of Mr. Brinton we agreed to maintain a card index showing the current transactions in each mortgagors unapplied account.

8. Month-end delinquency reports late and inaccurate

Our Servicing Supervisor, Mr. Brewster is now responsible for the preparation of Month-End Delinquency Reports. He has been advised of the necessity of prompt and accurate reporting. In the future all payments received on the 1st or 2nd day of the month even though post-marked prior to the end of the month will be shown as delinquent.

9. Report of custodial account not prepared correctly: balance of principal and interest not analyzed

All items shown in this section and required for the proper completion of Form 179 will be complied with.

10. Dates on mortgage ledger cards not adequate

(I) The only solution that I have for solving this problem without upsetting the continuous flow of the Bookkeeping records is to cancel the loan under the old account number and set up a new loan on the date that the mortgage is purchased by FNMA. However, this might result in a duplicate billing to the Home-Owner and is not really a satisfactory solution.

(II) The date of the reporting sheet is the date of the Cash Receipt of the payment and the date shown on the mortgagors permanent record. We have advised Financial Services, Inc., to post each days work separately, and to use the reporting sheet date as the transaction date.

(III) At the present time all disbursements are reported to Financial Services, Inc., one day after the check is written and should hereafter reflect this disbursement date on the mortgagors permanent record.

11. Collection efforts not adequately documented: reports not filed promptly

Mr. Brewster, our Servicing Supervisor is aware of the requirement to detail in writing all collection efforts and to file all required reports when due.

12. Deficiencies in handling foreclosure cases

Bernard Chiert, Attorney for Dale Funding Corporation, is now responsible for the follow-up and submission of all data required by FNMA, Field Counsel, and FHA or VA.

We wish to thank the FNMA and Mr. Brinton for the advice given during the Audit Period and also to advise the FNMA of our sincere intention to up-grade the quality of our servicing.

Very truly yours,

MITCHELL CHIERT, *President.*

APRIL 11, 1969.

Re Delinquencies.

Mr. MITCHELL CHIERT,
*President, Dale Funding Corp.,
Brooklyn, N.Y.*

DEAR MR. CHIERT: For several months, your delinquency ratio has been completely unsatisfactory. Even in March, when delinquencies were computed as of the end of the month, your ratio was not reduced to an acceptable level.

This is notification to you that, effective immediately, your Company has been placed on probation for an indefinite period. Unless *immediate* and *substantial* improvement is shown, we will give serious consideration to suspending your privilege of bidding in the weekly FNMA auctions.

Please acknowledge receipt of this letter.

Sincerely yours,

KEVIN E. KEEGAN,
Regional Vice President.

MARCH 11, 1970.

Mr. MITCHELL CHIERT,
*President, Dale Funding Corp.,
Brooklyn, N.Y.*

DEAR MR. CHIERT: We are encouraged by the progress which your corporation has achieved in reducing your delinquency ratio, since your firm was placed on probation, from 14.4% to a present ratio of 3.9%.

In view of this favorable trend regarding your delinquency status and because of other improvements relative to your selling and servicing performance, we are removing your corporation from probation effective immediately.

We trust that the improvement which you have made during the past few months will continue, and that we may look forward to additional progress during the coming months.

Sincerely yours,

K. A. DUNCAN,
Regional Vice President.

APRIL 12, 1971.

Re Special Reporting.

Mr. MITCHELL CHIERT,
*President, Dale Funding Corp.,
Brooklyn, N.Y.*

DEAR MR. CHIERT: We were disappointed to note the marked increase in your delinquency ratio of 7.7% reported for the month ended March 31, 1971. This increase of 1.9% came at a time when other servicers in our region made a substantial effort in reducing delinquencies during March.

What specifically caused the increase and let us know the exact steps you plan to take to improve collections.

We are placing your firm on special reporting for April, which means that you will have to furnish us with fully completed FNMA Forms 145, Loan Service Reports, on all one and two month delinquencies as of the close of business April 30. These reports will be in addition to your regular ones for those three months and more delinquent.

The reports for the one and two month delinquents for April must be in our office no later than May 10.

This special reporting will continue until you have substantially reduced your delinquencies.

Sincerely,

JOSEPH R. ELDRED,
Senior Loan Representative.

JUNE 3, 1968.

Memorandum to: Keegan, Agency Manager, FNMA—Philadelphia.
From: Miller, Agency Director, Examination and Auditing—Philadelphia.
Subject: Audit of Servicer, Dale Funding Corp., Brooklyn, N.Y.

We have examined the records maintained by this Servicer on FNMA mortgages, and reviewed its procedures for servicing these mortgages. The audit began on May 9 and ended on May 10, 1968.

At March 25, 1968, the effective date of our audit, the Servicer was servicing 52 mortgages for the Philadelphia Agency, and 32 for itself.

The Servicer began servicing for FNMA in April 1966, and has not been previously audited.

One finding is shown on Exhibit A. This finding was discussed with Mr. Mitchell Chiert, President, who agreed to correct the deficiency.

The finding is serious, in our opinion, because it shows a material deficiency in the Servicer's records or procedures.

Exhibit B contains three findings which we did not consider serious. These were discussed with the Servicer's officials who have agreed to take the appropriate action. No further action is necessary. However, as this is the first audit of the Servicer, we suggest that for informational purposes, you enclose a copy of Exhibit B with your letter to the Servicer.

The Appendix to this report contains additional information and comments concerning the Servicer's activities.

We shall appreciate a copy of your letter to Mr. Mitchell Chiert, President, confirming the agreements for clearance and a copy of the Servicer's reply.

ARTHUR W. MILLER.

EXHIBIT A

FEDERAL NATIONAL MORTGAGE ASSOCIATION, EXAMINATION AND AUDIT DIVISION-FIELD OFFICE, PHILADELPHIA

FINDING—AGREED TO CLEAR

Re Dale Funding Corp.

1. *Not all required information shown on ledgers.*—(Sec. 202 Servicers Guide):

When a check which is returned NSF, is deemed uncollectible, it is the Servicer's practice to eradicate the original entry from the payment record instead of making a reversal entry.

The above procedure was followed in connection with two payments received on loans numbered 31-263760-SJ and 31-251710-SJ.

(a) Mr. Mitchell Chiert, President, stated that in the future, the Servicer would show on the permanent payment record, the collection and subsequent reversal of uncollectible NSF checks.

EXHIBIT B

2. *Mortgage clauses not adequate.*—(Sec. 120 Servicers Guide):

We found the following deficiencies in the mortgage clauses of the hazard insurance policies for properties securing FNMA mortgages:

(i) In three cases, the mortgagee clause read "Federal National Mortgage Association."

(ii) Four mortgagee clauses showed the Servicer as mortgagee instead of FNMA. (Follow-up to obtain endorsements showing FNMA as mortgagee was made in three of these cases on May 7, 1968, immediately preceding our audit).

(iii) One mortgagee clause showed FNMA "and Dale funding Corporation, as interest may appear."

(iv) One mortgagee clause read "Federal National Association."

The Servicer's procedures do not provide for prompt follow-up to obtain endorsements ordered for hazard insurance policies, or for adequate review to assure that such endorsements are correct.

(a) Mr. Mitchell Chiert, President, stated that the Servicer would review all FNMA policies and, where necessary, obtain endorsements showing FNMA as mortgagee, c/o the Servicer. He also stated that, in the future, prompt follow-up would be made to obtain endorsements to such policies and the endorsements would be reviewed carefully when received.

3. *Inadequate control of checks.*—For 16 signed checks drawn on the FNMA Custodial Account during the past year, which were not issued to payees because of errors, the Servicer did not mark the checks "void" or obliterate the authorized signatures.

(a) Mr. Chiert stated that in order to assure better control over checks in the future, the Servicer would mark all checks drawn and signed, but not issued, "void" or obliterate the signatures of the authorized officers.

4. *Signed duplicates of bonds and mortgages in servicer's files.*—The Servicer's files contained signed copies of at least seven FNMA mortgages and four mortgage bonds which were not properly identified as duplicate copies.

The Servicer does not have a procedure for stamping "copy" on the signed copies of mortgages or mortgage bonds in its files.

(a) Mr. Chiert stated that the Servicer would review the files for all FNMA mortgages, and stamp "copy" on all signed copies of mortgages or mortgage

bonds contained in these files. Copies of such documents for mortgages sold to FNMA in the future, will be similarly stamped.

APPENDIX TO AUDIT REPORT AS OF MARCH 25, 1968

SERVICER'S DELINQUENCY PROCEDURES

Prior to the beginning of each month, the Servicer prepares a listing of all accounts. As payments are received, the applicable account is checked off. Between the 5th and 10th of the month, the list is reviewed and the first notices of delinquency are mailed. A second notice is sent on the 15th of the month. If the account remains unpaid, further contacts are made by telephone calls, letters, and personal interviews. The personal visits are made during the third month of delinquency, or earlier if the Servicer cannot contact the mortgagor by telephone.

It is the Servicer's practice during the first two or three years of a mortgage, to accept one installment when two or more are due, and to request that the balance due be remitted promptly. The Servicer believes that during this period, the mortgagor is being "educated" as to his responsibilities. All of the mortgages serviced for FNMA are in this group.

Mr. Charles Shusterhoff, Secretary-Treasurer, has overall responsibility for the servicing of delinquent mortgages. He and three other employees handle delinquencies on a part-time basis.

Opinion.—In our opinion, the Servicer's delinquency procedures are adequate.

Delinquency procedures for other investors.—Mr. Chiert stated that the Servicer uses the same delinquency procedure for itself and FNMA. (The Servicer does not service mortgages for any other investor.) A delinquency report on the Servicer's total portfolio was not available.

Delinquency ratio.—A comparison of the Servicer's most recent delinquency ratio as of April 25, 1968, and three preceding months, including the month with the highest delinquency ratio in the year ended April 25, 1968, is as follows:

	April 1968	March 1968	February 1968	January 1968
1 month.....	6	6	6	4
2 months.....	1	1		
Over 2 months.....	0		1	1
Total.....	7	7	7	5
Percentage.....	12.5	13.5	14.6	10.6
Portfolio.....	56	52	48	47

Servicer's policy on late charges.—The Servicer collects late charges on installments received after the 15th of the month. These charges are handled in accordance with FNMA requirements.

Servicer's fidelity coverage.—The Servicer's fidelity coverage of \$7,500.00 meets FNMA requirements. No errors and omissions coverage is carried.

Fees collected from mortgagors.—The Servicer collects the following fees—a \$25.00 fee for change in ownership when the mortgagor is released from liability and a 50¢ fee for mortgagors' checks returned by the bank NSF.

Servicer's opinion on mortgage market.—The Servicer promised to send the requested information soon.

Clearing and custodial accounts.—All clearing and custodial bank accounts are in banks insured by the Federal Deposit Insurance Corporation.

Audit performed by Frederick C. Maguire.

DALE FUNDING CORP.,

FEDERAL HOUSING ADMINISTRATION APPROVED LENDING INSTITUTION,

Brooklyn, N.Y., June 26, 1968.

Re FNMA Audit.

(Attention of Mr. Philip J. Lynch.)

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
Philadelphia, Pa.

GENTLEMEN: This will acknowledge receipt of your letter dated June 12th in which you described several deficiencies in our servicing procedure. We are pleased to report that all items mentioned in your letter have been discussed with employees of the company and remedial action has been taken.

Item 1. *Not all required information shown on ledgers.*—We now post a reversal entry in the permanent payment record for uncollectable NSF checks.

Item 2. *Mortgagee clauses not adequate.*—We have reviewed all insurance files and have ordered corrections on each incorrect mortgagee clause. We have revised our follow-up procedure in order to more promptly follow endorsement requests. We will not in the future accept any endorsement from an insurance agent or company that is not correctly written.

Item 3. *Inadequate Control of Checks.*—Your recommendation will be followed. All void checks will be marked "Void" and the authorized signature on each void check will be obliterated.

Item 4. *Signed duplicates of bonds and mortgages in servicer's files.*—Any copy of a bond or mortgage in our file will be stamped "Duplicate". Our service files have been reviewed and all copies have been so stamped.

Thank you for bringing these items to our attention.

Very truly yours,

MITCHELL CHIERT, *President.*

APRIL 3, 1972.

(Attention: Mr. Harry Bernstein, President).

EASTERN SERVICE CORP.,
Hempstead, N.Y. 11550

Gentlemen: We are informed that a Federal Grand Jury has returned an indictment against Eastern Service Corporation and others as a result of actions taken in connection with FHA-insured loan transactions.

In view of the indictment and the implications flowing from it, we are taking the following action:

1. Immediately suspend all future commitment contract activity on behalf of FNMA and GNMA with respect to Eastern Service Corporation;

2. As to all future deliveries of loans pursuant to any outstanding FNMA/GNMA commitments, FNMA will, as a prerequisite to the purchase of any mortgage, obtain directly from FHA or VA offices, assurances that their insurance certificate or guaranty is in full force and effect;

3. FNMA will promptly conduct an audit on which a conclusion will be based as to whether Eastern Service Corporation shall continue as a FNMA/GNMA Servicer.

The above actions, including suspension, shall in no way affect the continuing obligations and responsibilities to FNMA and GNMA which have been incurred by Eastern Service Corporation pursuant to the Selling and Servicing Agreements heretofore executed by it.

Sincerely yours,

K. A. DUNCAN.

FEBRUARY 6, 1968.

Memorandum to: Keegan, Agency Manager, FNMA—Philadelphia.
From: Miller, Agency Director, Examination and Audit—Philadelphia.
Subject: Audit of Servicer, Eastern Service Corp., Hempstead, N. Y.

We have examined the records maintained by this Servicer on FNMA mortgages, and reviewed its procedures for servicing these mortgages. The audit began on January 15 and ended on January 17, 1968.

At November 25, 1967, the effective date of our audit, the Servicer was servicing 266 mortgages for the Philadelphia Agency, and 5,403 for itself and other investors. The Servicer began servicing for FNAM in January 1967, and has not been previously audited.

One finding is shown on Exhibit A. This finding was discussed with Mr. Laurence J. Sharkey, Secretary, who agreed to correct the deficiency. The finding is serious in our opinion, because it shows a material deficiency in the Servicer's records or procedures.

Exhibit B contains one finding which we did not consider serious. This was discussed with the Servicer's officials who have agreed to take the appropriate action. No further action is necessary.

The Appendix to this report contains additional information and comments concerning the Servicer's activities.

We shall appreciate a copy of your letter to Mr. Harry Bernstein, President, confirming the agreements for clearance and if requested, a copy of the Servicer's reply.

ARTHUR W. MILLER.

FEDERAL NATIONAL MORTGAGE ASSOCIATION EXAMINATION AND
AUDIT DIVISION, FIELD OFFICE, PHILADELPHIA

FINDING—AGREED TO CLEAR

Re Eastern Service Corp.

1. *Deposits made in account not custodial in nature; FNMA custodial account used for unauthorized purpose.*—(Sec. 204 Servicers Guide):

(i) For cash payments received over the counter (usually 2 each month); and single checks received from mortgagors which cover payments due on FNMA mortgages and mortgages owned by other investors (2 each month), the Servicer deposits the funds initially to a general account (non-custodial). Checks are then drawn on this account for deposit to the FNMA Custodial Account.

(ii) NSF check fees (\$1.00) collected by the Servicer processed through the FNMA Custodial Account.

(a) Mr. Laurence J Sharkey, Secretary, stated that the Servicer would establish a clearing account through which payments of the types shown in items (i) and (ii) will be initially processed. The funds applicable to the mortgages will be transferred to the FNMA Custodial Account and the NSF check fees will be transferred to the Servicer's own account.

2. *Signed duplicates of mortgage bonds in servicers' files.*—The Servicer does not have a procedure for stamping "copy" on the signed copies of mortgage bonds in its files.

(a) Mr. Laurence J. Sharkey, Secretary, stated that the Servicer would review the files for all FNMA mortgages, and stamp "copy" on all signed copies of mortgage bonds contained in these files. Copies of such documents for mortgages sold to FNMA in the future, will be similarly stamped.

APPENDIX TO AUDIT REPORT AS OF NOVEMBER 25, 1967

SERVICER'S DELINQUENCY PROCEDURES

As payments are received, they are noted on "history cards" maintained for each mortgagor. On the 5th of each month, these cards are reviewed and "late" notices are sent in all cases where the card indicates that the payment for the current month has not been received. The cards are reviewed again on the 10th and continuously during the remainder of the month. Telephone calls to delinquent mortgagors are made on the 10th, or letters are written if the mortgagor cannot be contacted by telephone. Thereafter, contact is made by telephone, letter or personal visit. These visits are usually made during the second month of delinquency.

The Servicer normally will not accept one installment when two or more are due.

Mr. Thomas Reynolds, Mortgage Administrator, has overall responsibility for the servicing of delinquent mortgages. He is assisted by 5 clerks, and 2 field men, on a full time basis and 1 field man on a part-time basis.

Opinion.—In our opinion, the Servicer's delinquency procedures are adequate.

Delinquency procedures for other investors.—Mr. Reynolds states that the Servicer uses the same delinquency procedures for itself, other investors and FNMA. A delinquency report on the Servicer's total portfolio was not available.

Delinquency Ratio.—A comparison of the Servicer's most recent delinquency ratio as at December 25, 1967, and three preceding months, including the month with the highest delinquency ratio in the year ended December 25, 1967, is as follows:

	Dec. 25, 1967	Nov. 25, 1967	Oct. 25, 1967	Sept. 25, 1967
1 month.....	49	13	25	9
2 months.....	1	2	2	3
Over 2 months.....	4	2	2	1
Total.....	54	17	29	13
Percentage.....	16.7	6.4	13.7	6.7
Portfolio.....	325	266	213	165

Mr. Reynolds stated that the increase in delinquencies in December was seasonal in nature and that in January the Servicer would have a more reasonable ratio. He also stated that many of the Servicer's delinquencies are due to mortgagors' personal problems, such as separations and divorce.

Matters referred to us by agency divisions.—The Loan Division requested that we discuss with the Servicer, its failure to submit complete Forms 145 (Loan Service Reports), and in duplicate.

(a) Mr. Reynolds stated that the Servicer has taken corrective measures to assure that Loan Service Reports are complete when submitted. He also stated that such reports would be prepared in duplicate in the future.

Servicer's policy on late charges.—The Servicer collects late charges on installments received after the 16th of the month and such charges are handled in accordance with FNMA requirements.

Servicer's fidelity coverage.—The Servicer's fidelity coverage of \$400,000 meets FNMA requirements. Errors and omissions coverage in the amount of \$100,000 is also carried.

Fees collected from mortgagors.—The Servicer collects the following fees: A \$25.00 fee for change in ownership when the mortgagor is released from liability; a \$10.00 fee for mortgages paid in full, if satisfaction is performed by an attorney not employed by the Servicer; and a \$1.00 fee for mortgagors' checks returned by the bank NSF.

Servicer's opinion on mortgage market.—The Servicer promised to send the requested information soon.

Clearing and custodial accounts.—All clearing and custodial bank accounts are in banks insured by the Federal Deposit Insurance Corporation.

Audit performed by Frederick C. Maguire.

FEBRUARY 19, 1968.

Re FNMA Audit Report.

Mr. HARRY BERNSTEIN,
President, Eastern Service Corp.,
Hempstead, N.Y.

DEAR MR. BERNSTEIN: Our auditor has reported on his review of your records and procedures for servicing FNMA mortgages.

One finding is shown on the enclosed Exhibit A. This finding was discussed with Laurence J. Sharkey, Secretary, who agreed to clear the deficiency. The finding is serious in our opinion, because it shows a material deficiency in your records and procedures.

One additional finding not shown on Exhibit A was discussed with your officials who agreed to take appropriate action.

We will appreciate your reply confirming the agreement for clearing the finding shown on Exhibit A.

Sincerely yours,

KEVIN E. KEEGAN,
Agency Manager.

EASTERN SERVICE CORP.,
MORTGAGE FINANCING,
Hempstead, N.Y., February 21, 1968.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT,
FEDERAL NATIONAL MORTGAGE ASSOCIATION,
Philadelphia, Pa.

(Attention: Mr. Kevin E. Keegan, Agency Manager).

GENTLEMEN: In response to your letter of February 19th, addressed to Mr. Bernstein, we are pleased to state the following:

Your objection as shown on the attached appendage listed Exhibit "A" has been cleared by our opening an account at the Hempstead Bank, located at 40 Main Street, Hempstead, New York. The account is known as the Eastern Service Corporation Clearing Account, Check #001-172-386.

This account will be utilized to comply with the objection as found by your auditors.

Very truly yours,

LAURENCE J. SHARKEY,
Secretary.

EXHIBIT 4

FNMA Documents Relating to Inter-Island Mortgagee Corp.

MEMORANDUM

APRIL 30, 1971.

To: K. A. Duncan, Regional Vice President, FNMA.

From: A. W. Miller, Regional Director, Internal Audit, Philadelphia.

Subject: Audit of Servicer, Eastern Service Corp., Hempstead, N.Y.

We have examined the records maintained by this Servicer on FNMA, GNMA and HUD mortgages, and reviewed its procedures for servicing these mortgages. The audit began on March 10 and ended on March 25, 1971.

At December 24, 1970, the effective date of our audit, the Servicer was servicing 5,044 FNMA, 143 GNMA and 194 HUD mortgages for the Northeastern Regional Office, 871 for itself, and 5,971 for other investors.

Fourteen findings are shown on Exhibit A. These findings were discussed with Mr. Louis B. Bernstein, Executive Vice President, and Mr. Roger Fred, Vice President and Controller, who agreed to correct the deficiencies shown.

Findings 1 through 6 are serious in our opinion because they show material deficiencies in the Servicer's records or procedures. We are classifying the Servicer's performance as marginal. The Servicer's performance has deteriorated since our previous audit, but we believe this is due mainly to the material increase in the portfolio within the last three years (from 325 mortgages for FNMA and GNMA at 12/24/67 to 5,381 at 12/24/70). This growth has involved the training of a large servicing staff, problems not encountered in servicing a small portfolio and material changes in the accounting system.

We suggest the Servicer be requested to confirm its agreement to take corrective actions concerning all of the above findings and to describe in detail the steps it will take to correct the deficiencies reported in findings 1 through 6.

In a separate memo dated April 29, 1971, we submitted a report to you on our examination of certain data relating to loan #31-707588-KV (Bacon). The Regional Office reported this item to Mr. Pence as a compliance case on 2/26/71.

The Servicer was scheduled to convert to the FNMA Aggregate Exception System as of the close of business 12/24/70.

The Appendix to this report contains additional information and comments concerning the Servicer's activities.

We shall appreciate two copies of your letter to Mr. Harry Bernstein, President, confirming the agreements for clearance and a copy of the Servicer's reply.

ARTHUR W. MILLER.

EXHIBIT A

FEDERAL NATIONAL MORTGAGE ASSOCIATION, INTERNAL AUDIT DIVISION—
FIELD OFFICE, PHILADELPHIA

DEFICIENCIES WHICH THE SERVICER AGREED TO CORRECT

Re Audit of Servicer,
Eastern Service Corp.

1. *Deposits not made promptly: Errors in remittances.*—(Sec. 204 & 205 Servicers Guide):

(i) During the months of November and December 1970, and January, February and March 1971, there were at least 30 days when funds were not deposited to the FNMA Custodial Account until two to five business days after collection. Also, for GNMA during the months of January and February 1971, there were at least 14 days where funds were not deposited to the Custodia Account until two to four business days after collection.

(ii) The Servicer withholds 10% of the principal and interest collected, for service charges, from all remittances preceding the final remittance each month and subsequently adjusts the final remittance for actual service charges earned.

The Servicer's procedures do not provide for the prompt deposit and proper remittance of collections.

(a) Mr. Louis B. Bernstein, Executive Vice President, and Mr. Roger Fred, Vice President and Controller, stated that the Servicer would take steps to assure that in the future, all collections are deposited in the FNMA and GNMA Custodial Accounts within 24 hours after they are received by the Servicer.

They also agreed to limit the estimated service charges deducted from remittances to 10% of the interest collections, with an adjustment on the final remittance for the month.

2. *Funds not transferred to FNMA custodial account at time mortgages purchased by FNMA.*—(Sec. 204 Servicers Guide):

For mortgages purchased from the Seller/Servicer during the months of November and December 1970, and January 1971, there were delay in transferring funds to the FNMA Custodial Account, as follows:

(i) For 24 mortgages, the mortgagors' escrow funds were not transferred to the FNMA Custodial Account until 13 to 20 days after the Servicer received payment for the mortgage.

(ii) In 17 cases, installment payments made after submission, but prior to purchase of the mortgage, were not transferred to the FNMA account until 13 to 20 days after the Servicer received payment for the mortgage.

The Servicer's procedures do not provide for the prompt transfer to the FNMA Custodial Account of mortgagors' escrow funds on hand or the installments paid after submission.

(a) Mr. Bernstein and Mr. Fred stated, that in the future, the mortgagors' escrow funds and any installments made after the date of submission (prior to purchase) will be transferred to the FNMA Custodial Account within a week after the date of purchase of the mortgage by FNMA.

3. *Late charges accepted and mortgagors billed for late charges over a period of several months.*—(See 105 Servicers Guide):

In the following cases, the Servicer accepted installments after the 15th of the month without late charges, but continued to bill and collect these late charges after the date the next installments were received:

Loan No.	Due date of installment accepted without late charge after 15th	Installments accepted prior to collecting the late charge	Date of collection of late charge on installment in col. (2)	Amount of late charge
1-31-521016-2	Sept. 1, 1970	Oct. 1, 1971; Nov. 1, 1970	Dec. 3, 1970	\$1.76
1-31-715389-9	May 1, 1970	June 1, 1970; July 1, 1970	Aug. 12, 1970	2.20
	Oct. 1, 1970	Nov. 1, 1970; Dec. 1, 1970	Jan. 5, 1971	2.08
1-31-712693-7	May 1, 1970; Aug. 1, 1970; Sept. 1, 1970.	June 1, 1970 through Oct. 1, 1970; Sept. 1, 1970 through Oct. 1, 1970; Oct. 1, 1970	Nov. 12, 1970	14.72
1-31-508044-0	June 1, 1970	July 1, 1970; Aug. 1, 1970	Sept. 9, 1970	4.72
1-31-262852-6	Sept. 1, 1970	Oct. 1, 1970	Nov. 2, 1970	4.00
1-31-520247-6	Sept. 1, 1970	Oct. 1, 1970; Nov. 1, 1970	Dec. 3, 1970	3.00

The Servicer apparently was not aware of FNMA's requirements regarding the above matter.

(a) Mr. Bernstein and Mr. Fred stated that the Servicer will immediately discontinue billing for late charges that are not collected at the time the late payment is accepted, or at the time the next installment is received from the mortgagor.

4. *Not all required information shown on mortgage payment records.*—(Sec. 202 Servicers Guide):

The following deficiencies were found in the Servicer's mortgage payment records:

(i) These records do not show the due dates of the installments collected, or the principal and escrow balances at the beginning of the period covered.

(ii) Transactions are not shown in chronological order.

The above arrangements regarding the maintenance of mortgage payment records presented problems in the examination and audit of principal balances and escrow accounts.

(a) Mr. Bernstein and Mr. Fred stated that the Servicer will change its procedures in order to show on mortgage ledger cards (i) due dates of the installments collected, and the principal and escrow balances at the beginning of the period covered, and (ii) transactions in chronological order.

5. *Disbursement clearing account improperly handled.*—(Sec. 204 Servicers Guide):

The Servicer's procedure for the maintenance of its disbursement clearing account does not provide for the preparation of listings, by payee, to support the disbursements from the above account.

The Servicer apparently was not aware of FNMA's requirements regarding the maintenance of a disbursement clearing account.

(a) Mr. Bernstein and Mr. Fred stated that listings would be prepared, in the future, supporting all disbursements from the disbursement clearing account.

6. *Payoffs not properly handled.*—(Sec. 209D Servicers Guide):

For five payoffs during the past six months, we found that:

(i) The payoff funds were not deposited in the FNMA Custodial Account until 2 to 13 business days after collection.

(ii) In two of the cases, FNMA did not receive payoff funds from the Servicer until seven and eight business days after collection.

(iii) In two cases, there was no transmittal letter in the file to indicate the date the mortgage papers were returned to the mortgagor or his attorney.

(a) Mr. Bernstein and Mr. Fred stated that regarding future payoffs, the Servicer would (i) deposit funds in the FNMA Custodial Account within 24 hours after collections; (ii) remit the funds to FNMA no later than the first business day after collection; and (iii) retain transmittal letters, or receipts (if hand-delivered) to indicate the return of mortgage documents to mortgagors or attorneys.

7. *Form 179 (report of custodial account) not prepared correctly.*—(Part III Servicers Guide):

The Servicers submitted Forms 179 that were prepared incorrectly as follows:

(i) Transactions involving unapplied funds and insurance loss drafts were shown in Column 1 (Deposits for Insurance, Taxes, etc.) instead of Column 6 (Other) and Column 5 (Insurance Loss Drafts).

(ii) Disbursements made after the cut-off dates for November and December 1970 were shown on the reports submitted as of the 25th of the respective months.

(iii) The Servicer did not complete the column titled "Date Fund Received" under line 15 (Deposits in Transit) for December 1970. Also, under the column titled "Date Funds Deposited", the Servicer showed the dates the deposits were prepared instead of the dates the funds were credited by the bank.

(a) Mr. Bernstein and Mr. Fred stated that regarding item (i), unapplied funds and insurance loss draft would be shown on Form 179 correctly classified. For item (ii), they stated that disbursements made after the cut-off date would not be shown on the current month Form 179. Regarding item (iii), Mr. Fred stated all parts of Form 179 would be completed correctly before being sent to FNMA.

8. *Late charges not deposited in FNMA custodial account.*—(Sec. 204 Servicers Guide):

The Servicer does not deposit late charges collected on FNMA mortgages in the FNMA Custodial Account. (Such charges are posted to the mortgage payment record.)

The Servicer's procedures provide for the deposit of late charges to the Servicer's general account.

(a) Mr. Bernstein and Mr. Fred stated procedures would be established to deposit late charges collected in the FNMA Custodial Account before transferring the late charges to the Servicer's general account.

9. *Mortgage clauses not adequate.*—(Sec. 120 Servicers Guide):

We found the following deficiencies in the hazard insurance policies for properties securing FNMA and GNMA mortgages:

(i) In three cases the Servicer was shown as mortgagee.

(ii) In three cases the Servicer "and the Chase Manhattan Bank N.A. and the National Bank of North America" were shown as mortgagee.

(iii) Two clauses read "Federal National Mortgage Association".

(iv) Two clauses showed GNMA, c/o The Heritage Corporation of New York.

(v) In one case, the clause read "Federal National Mortgage Corporation."

(vi) One clause read "Federal National Mortgage Associations."

(vii) One clause showed the Servicer's address as 135 Fulton Avenue.

(viii) In one case, "National Bank of North America" was shown as mortgagee.

The deficiencies shown in item (i) through (viii) above resulted from the Servicer's failure to follow up with insurance carriers or agents where requested endorsements were not received or were incorrectly prepared.

(a) Mr. Bernstein and Mr. Fred stated that the Servicer would review all FNMA and GNMA policies and obtain the necessary endorsements for attachment to the policies to correct deficiencies of the above nature. He also stated that in the future, follow up would be made until correct mortgagee clauses are received.

10. *Improper statements in letters to delinquent mortgagors.*—Letters sent by the Servicer to mortgagors who owe three monthly installments contain the following wording:

(i) "Unless you appear at the offices of Eastern Service Corp. . . . your account will be referred to our attorneys for the institution of foreclosure proceedings. Your failure to appear will result in the start of such action . . ."

(ii) "You are hereby directed to appear at the . . . meeting of the Mortgage Review Board . . . Your failure to appear could result in the suspension of your mortgage, institution of foreclosure proceedings, or other action by this Board."

(a) Mr. Bernstein and Mr. Fred stated that the Servicer will discontinue sending to mortgagors letters threatening actions which the Servicer is not authorized to carry out. Instead the letters will state that if appropriate arrangements are not made to bring the account current, foreclosure action will be recommended to the investor.

11. *Incomplete records on mortgages in foreclosure.*—There was no indication in the Servicer's files of follow-up action with Field Counsel during the periods shown regarding the handling of the following foreclosure cases:

FNMA loan No. (name)	Date loan referred to field counsel for foreclosure	Servicer's files do not indicate contact with field counsel for the following periods	Elapsed days between servicer's contact with field counsel
1-31-707592-0 (Higgins).....	Dec. 23, 1970.....	Dec. 23, 1970 to Mar. 11, 1971.....	78
1-31-515614-6 (Hinton).....	Dec. 30, 1970.....	Dec. 30, 1970 to Mar. 11, 1971.....	71
1-31-704023-6 (Gonzalez).....	Jan. 11, 1971.....	Jan. 11, 1971 to Mar. 11, 1971.....	59
1-31-500209-6 (Vasquez).....	Dec. 23, 1970.....	Dec. 23, 1970 to Mar. 11, 1971.....	78
1-31-710856-9 (Vega).....	Dec. 31, 1970.....	Dec. 31, 1970 to Mar. 1, 1971.....	60
1-31-281456-7 ¹ (Alicea).....	Nov. 27, 1968.....	Aug. 7, 1970 to Feb. 11, 1971.....	188
1-31-286847-1 (Brown).....	Oct. 28, 1968.....	Aug. 7, 1970 to Feb. 11, 1971.....	188
1-31-287335-1 (Eisenberger).....	Aug. 28, 1968.....	Aug. 7, 1970 to Feb. 11, 1971.....	188
1-31-291254-9 ¹ (Medina).....	Aug. 11, 1968.....	Aug. 7, 1970 to Feb. 11, 1971.....	188
1-31-294823-1 (Sherrad).....	Dec. 19, 1969.....	Dec. 1, 1970 to Mar. 15, 1971 ²	104
1-31-507044-5 ¹ (Hailey).....	Dec. 17, 1969.....	Nov. 25, 1970 to Mar. 15, 1971 ²	110

¹ For these cases, the regional office files indicate that as of the date of our visit, the most recent contact with the servicer was during the month of February.

² Date of audit.

Mr. Bernstein stated that the Servicer had been in contact with Field Counsel by telephone during the periods shown, but notations were not made of such discussions.

(a) Mr. Bernstein and Mr. Fred stated that from now on, the Servicer's contacts with Field Counsel by telephone would be notated for the file.

12. *Signed copies of mortgage bonds in servicer's files.*—The Servicer's files contained signed copies of at least 13 Mortgage Bonds for FNMA mortgages.

This matter was the subject of a finding in our previous audit.

(a) Mr. Bernstein and Mr. Fred stated that the Servicer will review FNMA mortgage files and stamp "copy" on all signed duplicates of Bonds. They also stated that at the time mortgages are submitted to FNMA for purchase in the future, the signed duplicates of mortgage bonds will be stamped "copy".

13. *Failure to retain credit reports and/or verifications of employment.*—For 9 of the 25 mortgages we examined that were purchased by FNMA during 1970, the Servicer's files did not contain credit reports and/or forms indicating verification of employment.

(a) Mr. Bernstein and Mr. Fred stated that the Servicer's current procedures require the retention of credit reports and the letters or forms showing verification of employment. He said that the personnel in the Servicer's closing section might have thought the mortgages were assigned to mortgagees other than FNMA, and sent the documents to them. However, Mr. Bernstein stated that from now on for FNMA mortgages, credit reports and verifications of employment would be retained in the Servicer's files.

14. *Incorrect date "foreclosure started" reported to FHA on FHA form 2068 (home mortgage default notice).*—In reporting the date "Foreclosure Started" to FHA on FHA Form 2068 (Home Mortgage Default Notice), the Servicer uses the date the loan is forwarded to Field Counsel for foreclosure, instead of the date Field Counsel takes the first legal action toward foreclosure.

(a) Mr. Fred stated that, in the future, the Servicer would report the date the first legal action is taken by Field Counsel, to FHA as the date "Foreclosure Started".

APPENDIX TO AUDIT REPORT

MATTERS REFERRED TO US BY REGIONAL OFFICE PERSONNEL

The Controller's Division requested that we discuss with the Servicer certain losses resulting from the early cut-off of interest by FHA on claims filed on foreclosed properties.

(a) Mr. David Kaplan, Deputy Administrator, stated that the above losses were incurred in cases where the property was occupied at the date of foreclosure (claim withheld). Under a subsequent temporary arrangement with FHIA, claims for these properties were filed prior to the date FNMA obtained possession, but at the date of filing, FHA disallowed interest for the period elapsed from the date of foreclosure. Mr. Kaplan stated, however, that the Servicer has now reimbursed FNMA for all losses incurred from these cases.

SERVICER'S HANDLING OF DELINQUENCIES

A delinquency report on the Servicer's total portfolio was not available. The Servicer's overall delinquency ratio at February 28, 1971 was 7.20% for FNMA and GNMA mortgages, and 1.9% for HUD loans.

The Servicer's delinquency ratio at August 1969 was 10.9%, at which time the Servicer was requested to visit the Regional Office for a conference. Subsequent to the visit, the delinquency ratio decreased to a low of 4.6% in August and September 1970. Since then, there was a gradual increase to 6.7% in December; 6% in January and 7.7% in February 1971; March 5.8; and April 7.9.

Mr. Ronald Cusano, Supervisor, Collection Department, attributed the Servicer's high delinquency ratio during the past three months to: (1) holiday season; (2) additional winter heating and maintenance costs; and, (3) the fact that February is a short month. (Delinquency reports received from the Servicer subsequent to our visit, show that the delinquency ratio at March 31 was 5.8%.)

Mr. Cusano further stated that one of the problems the Servicer encounters in handling delinquencies is the inability in many cases to make contact with the mortgagors because the properties are occupied by tenants. The majority of the Servicer's FNMA loans are in Brooklyn, and Mr. Cusano stated that in the near future the Servicer will transfer its collection department to that area. Mr. Cusano also mentioned that the Servicer is presently employing retired detectives as field men in a further effort to reduce delinquencies.

JUNE 22, 1971.

Mr. HARRY BERNSTEIN,
*President, Eastern Service Corp.,
Hempstead, N.Y.*

DEAR MR. BERNSTEIN: Your reply of May 25, 1971 to our audit letter requesting a clarification of what you consider to be a contradiction between our instructions and FHA Regulation G-4015.9F has been received. We assume you are referring to the statement "Thus, refusal to accept a payment simply because it does not include a late charge could be construed as a violation of this regulation."

Our criticism was based on the fact that you accepted installments after the 15th of the month without late charges, but continued to bill and collect the late charges after the date the next installments were received. We have no objection to accepting the payment and waiving the late charge, but we cannot permit the continued billing for them.

Authority to return insufficient payment and late charges is granted to aid the servicer in maintaining mortgages in a current condition and both are usually effective if the mortgagor can pay on time but does not do so.

Please refer to FNMA Servicers Guide, Part I, Sections 105 and 106, Pages 6 and 7.

Sincerely yours,

JOHN J. DEISHER,
Assistant Regional Vice President.

EASTERN SERVICE CORP.,
MORTGAGE FINANCING,
Hempstead, N.Y., May 25, 1971.

Re Audit of Servicing of FNMA Mortgages.

MR. K. A. DUNCAN,
Regional Vice President,
Federal National Mortgage Association, Philadelphia, Pa.

DEAR MR. DUNCAN: In answer to your letter of May 13, 1971 and attached Exhibit A, addressed to Mr. Harry Bernstein, we submit the following:

1. *Deposits not made promptly.*—Our daily procedure in respect to our collections is as follows:

(a) We deposit these collections in a clearing account daily.

(b) Our computer print-out informs us daily of the breakdown of these collections by investors.

(c) Checks are drawn daily from the clearing account to the custodial accounts of the respective investors.

In the past, we were mailing these deposits to the Chase Manhattan Bank in Brooklyn, where the custodial accounts were located. Because of the delays in the mail and occasional computer malfunctions, these deposits were not reflected in the custodial accounts promptly. We are now hand-delivering the deposits to the Lynbrook branch of the Chase Manhattan Bank. This is speeding up the deposits.

Errors in remittances.—As soon as we were notified of our error in this procedure, we limited the daily deduction for estimated service charges to 10 percent of the interest collections.

2. *Funds not transferred to FNMA custodial account at time mortgages purchased by FNMA.*—When we are notified of mortgage purchases by FNMA, input is prepared and then processed by the computer. A print-out tells us to transfer both escrow funds and appropriate installment payments to the custodial account.

During the period in question, due to misfiling of FNMA purchase advices, there was a delay in processing this data.

Controls have been established to prevent a recurrence of these delayed transfers, and such transfers will be made within a week after the purchase by FNMA.

3. *Late charges accepted and mortgagors billed for late charges over a period of several months.*—We have discontinued billing for late charges that are not collected at the time the late payment is accepted, or at the time the next installment is received from the mortgagor.

We have instituted this procedure even though your regulations, which suggest return of payment if late charges are not included, seem to contradict the FHA regulations, which state that refusal to accept a payment simply because it does not include late charges could be construed as a violation of FHA regulation G-4015.9F of April 1970. We would appreciate a clarification of this apparent contradiction.

4. *Not all required information shown on mortgage payment records.*—Our present system does not show the due dates of the installments collected, the principal and escrow balances at the beginning of the period covered, nor are transactions shown in chronological order. We are presently revising our EDP systems and programs to provide, in simpler form, this information. We have been advised by Peat, Marwick, Mitchell and Company, our computer consultants, that the new procedures will be ready by the first of the year at the latest.

5. *Disbursement clearing account improperly handled.*—This deficiency will be corrected with the new revisions to our computer that are being programmed, and that will be in force before the end of the year.

6. *Payoffs not properly handled.*—

(a) We are presently depositing funds in the FNMA Custodial Account within 24 hours after collection.

(b) We are presently remitting the funds to FNMA no later than the first business day after collection.

(c) We are retaining a copy of the transmittal letters or receipts indicating return of mortgage documents to mortgagors, title companies or attorneys.

7. *Form 179 (report of custodial account) not prepared correctly.*—The observations in (i), (ii), and (iii) have been noted and corrected on all forms 179 prepared subsequent to the auditors' visit.

8. *Late charges not deposited in FNMA custodial account.*—This incorrect procedure on our part was corrected immediately upon notification by the auditors, and late charges are presently being deposited in the Custodial Account.

9. *Mortgagee clauses not adequate.*—Our procedures have, and still do, provide for the deficiencies that you uncovered as to our endorsement policies. We have reviewed our system and instructed our insurance supervisor to make sure that all past discrepancies are corrected, and to follow up on the clerks in her department to make sure that procedures are followed as laid out.

10. *Improper statements in letters to delinquent mortgagors.*—We have ceased sending out the notices referring to (i) and (ii), and will no longer send letters to mortgagors which in any way threaten actions which Eastern Service is not authorized to carry out.

11. *Incomplete records on mortgages in foreclosure.*—We have completed our computer program, the print-out of which gives us an up-to-date follow up on the status of mortgages in foreclosure.

We are also making notes on the file of all contacts with Field Counsel.

12. *Signed copies of mortgages in services's files.*—We were not aware at the time of the audit that the following stamp appears next to the mortgagor's signature on each duplicate of mortgages. If this stamp does not meet your requirements, please advise.

The undersigned certifies that the within is a true copy of the mortgage delivered for recording.

13. *Failure to retain credit reports and/or verifications of employment.*—Again our procedures call for the retention of credit reports, and verifications of employment. We have reiterated to the personnel involved the necessity of making sure that these documents are in our files.

14. *Incorrect date "foreclosure started" reported to FHA form 2068 (home mortgage default notice).*—Since the audit, we have been reporting to FHA as the date "Foreclosure Started" the date the first legal action is taken by Field Counsel.

We trust that the faithful observance of the above will satisfy your requirements.

Sincerely,

ROGER FRED,
Financial Vice President.

MAY 11, 1972.

Mr. STANLEY SIROTE,
President, Inter-Island Mortgage Corp. of Puerto Rico,
Flushing, N.Y.

Dear Mr. SIROTE: This is notification that effective immediately, the selling privileges of Inter-Island Mortgage Corporation of Puerto Rico, and any subsidiary or affiliated companies, have been suspended for an indefinite period of time. This suspension is to encompass all selling activities, i.e., Free Market System Auction for FHA/VA commitments and all FNMA multifamily commitment contract and immediate purchase contract activity. This suspension, however, will not affect any of your outstanding commitment contracts.

This action is taken on the basis of testimony before the Subcommittee on Antitrust and Monopoly of the United States Senate Committee on the Judiciary, as a result of which FHA considered it necessary to suspend their approval of Inter-Island Mortgage Corporation as a mortgagee.

FNMA will conduct an audit immediately, to determine whether Inter-Island Mortgage Corporation of Puerto Rico, and any subsidiary or affiliated companies will continue as a FNMA Seller. If the findings of the audit so indicate, we will be compelled to take the necessary steps to protect our interests, such as terminating the Selling Agreement.

The above actions including suspension shall in no way affect the continuing obligations and responsibilities of Inter-Island Mortgage Corporation of Puerto Rico to FNMA which have been incurred by your Corporation pursuant to the Selling Agreement heretofore executed by it.

Should you desire to meet with us regarding the above, please contact Mr. Oliver J. McCarron, Assistant Regional Vice President, FNMA, Philadelphia, Pennsylvania, telephone (215) 665-9850.

Sincerely yours,

K. A. DUNCAN.

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
Philadelphia, Pa., May 10, 1972.

STANLEY SIROTE,
*President of Inter-Island Mortgage Corp.,
 Flushing, N.Y.*

This is to advise you that Inter-Island Mortgage Corporation selling privileges have been suspended for an indefinite period of time. This suspension is to encompass all selling activities, i.e., free market system auction for FHA/VA commitments and all FNMA/GNMA multifamily commitment contract and immediate purchase contract activity. This suspension, however, will not effect any of your outstanding commitment contracts.

A letter explaining the reasons therefore will follow.

K. A. DUNCAN,
Regional Vice President.

JULY 8, 1971.

Mr. STANLEY SIROTE,
*President, Inter-Island Mortgage Corp.,
 Jamaica, N.Y.*

DEAR MR. SIROTE: We are encouraged by the progress which Inter-Island Mortgage Corp., has achieved in reducing its delinquency ratio since your firm was placed on probation, from 9.4% to a present ratio of 5.0%.

In view of this favorable trend regarding your delinquency status and because of other improvements relative to your selling and servicing performance, we are removing your company from probation effective immediately.

However, it should be clearly understood that while we have removed your firm from probation, we anticipate a further decline in delinquencies, and an improved level of performance in your selling and servicing operations.

Sincerely yours,

K. A. DUNCAN.

FEDERAL NATIONAL MORTGAGE ASSOCIATION

[Memorandum]

MAY 24, 1971.

To: K. A. Duncan, Regional Vice President, FNMA.

From: A. W. Miller, Regional Director, Internal Audit, Philadelphia.

Subject: Audit of Servicer, Inter-Island Mortgage Corp., Jamaica, N.Y.

We have examined the records maintained by this Servicer on FNMA mortgages, and reviewed its procedures for servicing these mortgages. The audit began on March 31 and ended on April 16, 1971.

At February 25, 1971, the effective date of our audit, the Servicer was servicing 4,207 mortgages for the Northeastern Regional Office, 757 for itself, and 2,966 for other investors.

Thirteen findings are shown on Exhibit A. These findings were discussed with Mr. Stanley Sirote, President, who agreed to correct the deficiencies shown.

Finding 1 shows that the Seller/Servicer made inaccurate certifications in submitting mortgages to FNMA for purchase. Findings 2 through 6 are also serious, in our opinion, because they show material deficiencies in the Servicer's records or procedures. The Servicer's performance has deteriorated since our previous audit (12/25/67), but we believe this is due mainly to the material increase in the portfolio within the past three years. (The portfolio has grown from 295 to 4,207 mortgages during this period.) We are classifying the Servicer's performance as marginal.

We suggest that the Servicer be requested to confirm its agreement to take corrective actions concerning the above findings and to describe in detail the steps it will take to correct the deficiencies reported in findings 2 through 6.

Certain details which we consider an integral part of the evaluation of the importance of the inaccurate certifications by the Seller/Servicer, are shown on Exhibit AA. We do not consider these details appropriate for transmission to the Servicer.

The Appendix to this report contains additional information and comments concerning the Servicer's activities.

We shall appreciate two copies of your letter to Mr. Stanley Sirote, President, confirming the agreements for clearance and a copy of the Servicer's reply.

ARTHUR W. MILLER.

EXHIBIT A

FEDERAL NATIONAL MORTGAGE ASSOCIATION, INTERNAL AUDIT DIVISION, FIELD
OFFICE, PHILADELPHIA

DEFICIENCIES WHICH THE SERVICER AGREED TO CORRECT

1. INACCURATE CERTIFICATIONS THAT ALL MATURED MORTGAGE INSTALLMENTS
HAD BEEN PAID BY THE MORTGAGORS (SEC. 617 SERVICERS GUIDE)

For each of the following ten mortgages sold to FNMA since January 1, 1970, the Seller/Servicer had not received the latest matured installment from the mortgagor, as certified, at the time the mortgage was submitted to FNMA:

(A) Loan No. 1-52-803512-1 (Norat)

The Mortgage Submission Voucher (FNMA Form 305) was signed by the Seller/Servicer on 8/17/70. On this voucher, the Seller/Servicer showed that the 8/1/70 installment was paid. The mortgage was purchased by FNMA on 8/26/70 at the 8/1/70 balance.

The Seller/Servicer's records show that a memorandum dated 9/11/70 was sent from the Seller/Servicer New York office accounting personnel to its Puerto Rico office stating, "Since FNMA purchased the loan (52-803512) as of the 8/70 balance \$35,706.47 and the 8/70 payment does not appear to have been received by your office, if and when it is received, the principal and interest should be retained by you and the escrow portion forwarded to New York." As of 3/25/71, the mortgagor had paid the 9/1/70 installment (11/18/70), but has made no further payments and the mortgage was in foreclosure. We were unable to determine when the 8/1/70 installment was paid, but were informed by Mr. Stanley Sirote, President, that the 8/1/70 installment was not paid at the time of the certification.

(B) Loan No. 1-52-803301-8 (Sanchez)

The Mortgage Submission Voucher, showing that the 7/1/70 installment was paid, was signed by the Seller/Servicer 7/28/70. FNMA purchased the loan on 8/12/70 at the 7/1/70 balance. The servicer's records show that the 7/1/70 installment was paid on 9/27/70, and that the due date of the latest paid installment was 9/1/70. The mortgage was in foreclosure at 3/25/71.

(C) Loan No. 1-52-802454-8 (Santos)

The Mortgage Submission Voucher dated 6/24/70 showed that the 6/1/70 installment was paid. FNMA purchased the mortgage 7/6/70 at the 6/1/70 balance. The Servicer's records show that the 6/1/70 installment was credited on 10/8/70. At 3/25/71, the mortgagor owed the 3/1/71 installment.

(D) Loan No. 1-52-803372-1 (Quiles)

The Mortgage Submission Voucher signed by the Seller/Servicer 7/28/70 showed that the 7/1/70 installment was paid. FNMA purchased the mortgage 8/14/70 at the 7/1/70 balance. The Servicer's records show that the 7/1/70 installment was paid 9/2/70. At 3/25/71, the mortgage was current.

(E) Loan No. 1-52-803303-2 (Sauri)

The Mortgage Submission Voucher dated 7/28/70 showed that the 7/1/70 installment was paid. FNMA purchased the mortgage at the 7/1/70 balance. The Servicer's records show that the 7/1/70 installment was paid 9/23/70. At 3/25/71, the mortgage was current.

(F) Loan No. 1-52-802676-6 (Gonzalea)

The Mortgage Submission Voucher (dated 7/1/70) signed by the Seller/Servicer showed that the 6/1/70 installment was paid. FNMA purchased the mortgage at the 6/1/70 installment. The Servicer's records show that the 6/1/70 installment was paid 7/24/70. The mortgage was current as of 3/25/71.

In addition to the six mortgages shown above, the following four mortgages, which were sold to FNMA were received by FNMA before the 15th of the following month and consequently it was not necessary for the current month's installment to be paid. However, in each instance the Seller/Servicer reported on the Mortgage Submission Voucher that the current month's installment had been paid, but we found that the Servicer's records did not support these statements.

(G) Loan No. 1-52-803078-1 (Morales)

The Mortgage Submission Voucher signed by the Seller/Serviceer 7/9/70 showed that the 7/1/70 installment was paid. FNMA purchased the loan on 7/29/70 at the 7/1/70 balance. The Serviceer's records show that the 7/1/70 installment was credited 8/17/70. At 3/25/71, the mortgagor owed installments for 9/1/70 through 3/1/71 and the mortgage was in foreclosure.

(H) Loan No. 1-52-802852-0 (Ocasio)

The Mortgage Submission Voucher dated 7/7/70 showed that the 7/1/70 installment was paid and FNMA purchased the mortgage 7/15/70 at the 7/1/70 balance. The Serviceer's records show that the 7/1/70 installment was paid 9/15/70. At 3/25/71, the mortgagor owed the 3/1/71 installment.

(I) Loan No. 1-52-803110-1 (Rivera)

The Mortgage Submission Voucher signed by the Seller/Serviceer 7/10/70 showed that the 7/1/70 installment was paid and FNMA purchased the loan at the 7/1/70 balance. The Serviceer's records show that the 7/1/70 installment was paid 8/27/70. The mortgage was current as of 3/25/71.

(J) Loan No. 1-52-803067-6 (Cordero)

The Mortgage Submission Voucher dated 7/6/70 showed that the 7/1/70 installment was paid and FNMA purchased the mortgage at the 7/1/70 balance. The Serviceer's records show that the 7/1/70 installment was paid 9/8/70. At 3/25/71, the mortgage was current.

The above cases were discussed with Mr. Sirote who stated that prior to January 1971 all accounting for Puerto Rico loans was being done in Puerto Rico. At the time a Puerto Rico loan was to be sold to FNMA, the Seller/Serviceer's selling division in New York would review a daily up-dated list of delinquent loans sent to it by Puerto Rico. If a loan was not shown on the delinquency list, the loan was assumed to be current by the New York office, and sold to FNMA.

Mr. Sirote informed us that he realized recently that their Puerto Rico procedures were inadequate. Therefore, since the beginning of 1971, all Puerto Rico accounting operations have been transferred to the Seller/Serviceer New York office. No Puerto Rico loans have been submitted to FNMA thus far in 1971.

(a) Mr. Sirote stated that in the future, greater care would be taken to assure that mortgages originated by the Serviceer are not submitted to FNMA more than 45 days after the last installment has been collected.

2. DELAYS IN REMITTANCES AND INCORRECT DATES SHOWN ON CASH RECEIPT VOUCHERS (SEC. 205 SERVICEERS GUIDE)

(i) There were five instances (involving eight days' collections) during the months of January and February 1971 where the Serviceer accumulated more than \$2,500.00 of FNMA collections for two to five days before remitting the funds to FNMA. Examples of these accumulations are shown below:

Period covered (actual)	Date collections cleared lockbox	Amount
Dec. 29 to Dec. 30, 1970.....	Jan. 7, 1971	\$27,338.34
Jan. 22 to Jan. 25, 1971.....	Feb. 1, 1971	31,080.27
Jan. 26 to Feb. 1, 1971.....	Feb. 8, 1971	21,114.51
Feb. 2 to Feb. 3, 1971.....	do.	38,008.19
Feb. 19 to Feb. 22, 1971.....	(i)	27,365.37

¹ After cutoff not known.

The above delays were due, in part, to the Serviceer's procedures for holding collections during the early days of the month until enough funds have been accumulated to deduct the prior month's service fee. However, the Serviceer held funds materially beyond that date before remitting to FNMA.

(ii) On the FNMA Cash Transmittal Advices (FNMA Form 477), the Serviceer reports two days of collection even when there is only one day involved. The earlier day of collection shown is usually at least one day prior to the actual date of collection.

(a) Mr. Sirote stated that (i) the Servicer would remit collections to FNMA on a daily basis in the future; and (ii) only the actual dates of collection would be shown on the FNMA Cash Transmittal Advices (FNMA Form 477).

3. FUNDS NOT TRANSFERRED TO FNMA CUSTODIAL ACCOUNT AT TIME MORTGAGES PURCHASED BY FNMA (SEC. 204 SERVICERS GUIDE)

For mortgages purchased during the months of January and February 1971, there were delays in transferring funds to the FNMA Custodial Account, as follows:

(i) For nine mortgages, the mortgagor's escrow funds were not transferred to the FNMA Custodial Account until 16 to 30 days after the Servicer received payment for the mortgage.

(ii) In four cases, installment payments made after submission, but prior to purchase of the mortgage were not transferred to the FNMA Custodial Account until 16 to 29 days after the Servicer received payment for the mortgage.

For transactions of this nature, the Servicer's procedures do not provide for the prompt transfer to the FNMA Custodial Account of mortgagors' escrow funds on hand or the installments paid.

This matter was the subject of a finding in our previous audit.

(a) Mr. Sirote stated that in the future, mortgagors' escrow funds on hand and any installment payments made after the date of submission (prior to purchase) will be transferred to the FNMA Custodial Account within a week after the Seller receives payment from FNMA for the mortgage.

4. LATE PAYMENTS ACCEPTED AND MORTGAGORS BILLED FOR LATE CHARGES OVER A PERIOD OF SEVERAL MONTHS (SEC. 105 SERVICERS GUIDE)

In the following cases, the Servicer accepted installments after the 15th of the month without late charges, but continued to bill and collect these late charges after the date the next installments were received:

Loan number and due date of installment accepted without late charge after 15th	Installments accepted prior to collecting the late charge	Date of collection of late charge on installment in col. (2)	Amount of late charge
31-278931:			
Mar. 1, 1970	Apr. 1, 1970 through Dec. 1, 1970	Jan. 25, 1971	\$3.16
Apr. 1, 1970	May 1, 1970 through Dec. 1, 1970	do	3.16
July 1, 1970	Aug. 1, 1970 through Dec. 1, 1970	do	3.16
Aug. 1, 1970	Sept. 1, 1970 through Dec. 1, 1970	do	3.16
31-299395:			
Aug. 1, 1969	Sept. 1, 1969 through Sept. 1, 1970	Oct. 29, 1970	2.58
Sept. 1, 1969	Oct. 1, 1969 through Sept. 1, 1970	do	2.58
Dec. 1, 1969	Jan. 1, 1970 through Sept. 1, 1970	do	2.80
Jan. 1, 1970	Feb. 1, 1970 through Sept. 1, 1970	do	2.80
July 1, 1970	Aug. 1, 1970 through Sept. 1, 1970	do	2.80
31-519396: Aug. 1, 1970	Sept. 1, 1970 through Nov. 1, 1970	Dec. 1, 1970	8.84

This matter was the subject of a finding in our two previous audits.

(a) Mr. Sirote agreed to take steps to assure that in the future, late charges are not accrued and collected if not received with the next monthly installment following the installment on which the late charge is assessed.

5. UNPAID PRINCIPAL BALANCE NOT RECONCILED WITH FNMA'S RECORDS

At 2/25/71, the unpaid principal balance as shown on the Aggregate Exception System trial balance prepared by FNMA exceeded the total shown on the Servicer's trial balance by \$181,125.95. The FNMA trial balance showed ten mortgages (three foreclosures and seven purchases) having a total unpaid principal balance of \$191,807.97 which did not appear on the Servicer's trial balance. The remaining difference of \$10,682.02 had not been reconciled by the Servicer. Our review indicated that the major part of the difference was due to FNMA's rejection of certain installments reported delinquent by the Servicer, as shown on FNMA Form 476 (Exception Update Listing).

The Servicer's procedures do not provide for a reconciliation of the unpaid principal balances with trial balances received from FNMA.

(a) Mr. Sirote stated that the Servicer would reconcile its unpaid principal balances with FNMA's trial balance for the month of February and for each month thereafter that it receives a trial balance from FNMA.

6. PAYOFFS NOT PROPERLY HANDLED (SEC. 209D SERVICERS GUIDE)

We found the following deficiencies in the Servicer's processing of four payoffs during the past six months.

(i) In each case, the date of payoff reported to the Regional Office on FNMA Form 53 (Collection Report) or FNMA Form 478 (FNMA Loan Removal Collection Report) was the date of the closing of the property sale in the office of the title company or attorney, instead of the date the funds were received by the Servicer (five to seven days later).

(ii) The payoff funds were not deposited in the FNMA Custodial Account until two business days after receipt in the Servicer's office in three cases, and for a Puerto Rico mortgage, the deposit was made seven business days after the funds were received in the Servicer's office.

(a) Mr. Sirote stated that, regarding future payoffs, the Servicer would (i) report the date the funds are received in the Servicer's office as the date of payoff on FNMA Form 478 (FNMA Loan Removal Collection Report); and (ii) deposit payoff funds in the FNMA Custodial Account within 24 hours after receipt in the Servicer's office.

7. FORM 179 (REPORT OF CUSTODIAL ACCOUNT) NOT PREPARED CORRECTLY (PART III SERVICERS GUIDE)

The Servicer submitted Forms 179 to FNMA that were prepared incorrectly as follows:

(i) Reversals of NSF checks were shown on line 2 (Add Receipts This Period) instead of line 5 (Less Dishonored Checks Charged).

(ii) NSF checks which had been reversed by the custodial bank, but not the Servicer, at the cut-off date were shown in Column 6 (Other) instead of Section II (Bank Reconciliation).

(iii) Escrow disbursements which had not been posted as of the cut-off date were shown in Column 6 (Other) instead of Column 1 (Deposits For Insurance, Taxes, Etc.).

(a) Mr. Sirote stated that the Servicer would show, (i) transactions involving the reversal of NSF checks on line 5 instead of line 2; (ii) NSF check reversals made by the custodial bank but not the Servicer in Section II instead of Column 6; and (iii) all escrow disbursements in Column 1 instead of Column 6.

8. TAX PENALTIES CHARGED TO ESCROW ACCOUNTS (SEC. 119 SERVICERS GUIDE)

The following penalties (\$12.27) were incurred and charged to the deposit accounts of the respective mortgagors:

Loan number and date paid:	Penalty
31-701845, Feb. 24, 1970	\$2. 05
31-702426, Mar. 26, 1970	7. 00
31-800738, Apr. 30, 1970	1. 75
31-800616, Apr. 30, 1970	1. 47
Total	12. 27

Although the Servicer's procedures provide for absorbing the amounts of any penalties incurred in the payment of delinquent taxes, this procedure was not followed in the above cases.

(a) Mr. Sirote stated that the Servicer would reimburse the above mortgagors' escrow accounts for the penalties incurred. He also stated that, in the future, greater care would be taken to assure that the Servicer absorbs the amounts of any penalties incurred in the payment of delinquent taxes.

9. DELAY IN CORRECTING PROCEDURAL ERRORS IN ANALYSIS OF ESCROW (SEC. 207 SERVICERS GUIDE)

The Servicer analyzed escrow accounts in October 1970, but the data used in the analysis was incorrect. Although the Servicer was aware that errors had been made in the above analyses, it had not taken prompt action to correct the accounts involved.

For example, at the date of our visit, the escrow balances for four mortgages were insufficient (shortages of \$80.00 to \$165.00) to cover forthcoming expenses and one mortgage escrow account contained excess escrow deposits of \$645.00 over the permitted excess of two monthly installments. (Certain of the accounts were in the process of correction at the time of our visit.)

(a) Mr. Sirote stated that the Servicer will increase its efforts to complete the escrow analyses and at the completion of the review will promptly adjust the accounts wherever necessary.

10. TRANSACTION DATES INCORRECT (SEC. 202 SERVICERS GUIDE)

(i) The Servicer's service bureau (Financial Services, Inc.) does not show the actual dates of reversals of NSF checks on mortgage payment records. Instead, it shows as the transaction date, the due date of the payment being reversed.

(ii) For FHA Mortgage Insurance Premium payments, disbursements are charged to the mortgagor's deposit account on the date of processing, but checks may not be drawn and dated until 4 to 13 days later.

(a) Mr. Sirote agreed to review the above matters in order to effect procedural changes which will provide for showing on the mortgage history runs the actual dates of reversals of NSF checks and actual disbursement dates of checks drawn on the FNMA Custodial Account.

11. INSURANCE LOSS DRAFTS NOT PROCESSED THROUGH FNMA CUSTODIAL ACCOUNT (SEC. 204 SERVICERS GUIDE)

The Servicer's procedures do not provide for processing the collection and disbursement of funds representing insurance loss drafts through the FNMA Custodial Account, where such losses exceed \$100.00.

(a) Mr. Sirote stated that all insurance loss draft transactions pertaining to FNMA mortgage accounts would be processed through the FNMA Custodial Account.

12. DEDUCTIBLE CLAUSE INCLUDED IN FIDELITY BOND

The Servicer's fidelity bond provides that the underwriter shall not be liable for losses, unless the loss exceeds \$1,000.00.

(a) Mr. Sirote stated that the Servicer preferred to retain the above deductible clause in the fidelity bond. He also stated that the Servicer would request a waiver of FNMA requirements in this regard.

13. IMPROPER STATEMENTS IN LETTERS TO DELINQUENT MORTGAGORS

Letters sent by the Servicer to mortgagors who owed two to three monthly installments contained the following wording (Letters (i) to (iii) were sent by the Servicer and items (iv) to (vi) were sent by the Servicer's attorney):

(i) "We will expect remittance to cover the arrears . . . or we shall be forced to proceed with a foreclosure action . . ."

(ii) "Failure to comply will be an indication for us to proceed with a foreclosure action."

(iii) "Unless the above is received . . . your account will be turned over to our foreclosure attorney."

(iv) "Unless satisfactory arrangements are made with my client . . . I will be forced to comply with their foreclosure instructions."

(v) ". . . if payment for the entire amount due, or a satisfactory repayment plan is not offered within five (5) days I will be forced to start foreclosure proceedings without further notice to you."

(vi) "This is to inform you that my client . . . has referred your account to me and foreclosure action has commenced."

(a) Mr. Sirote stated that for FNMA mortgages, the Servicer will not threaten action which it cannot carry out, but instead will say, for example, that unless payments are brought current, foreclosure of the mortgage will be recommended to the holder of the mortgage.

INACCURATE CERTIFICATIONS

Of approximately 154 Puerto Rico mortgages that the Seller/Servicer sold to FNMA during 1970, there were ten Puerto Rico mortgages which contained inaccurate certifications. Of these ten loans, three were in foreclosure at 3/25/71, two delinquent for one month and five were current.

As stated in the finding, Loan Nos. 1-52-803078, 802852, 803110 and 803067 are submitted to FNMA prior to the 15th of the following month that the installment was due and under present procedures, FNMA would have purchased the loan with the installment shown as unpaid.

A test review of the domestic loans submitted by the Seller/Service (New York Office) indicated that no mortgages were sold to FNMA with inaccurate certifications.

Attached is a copy of a letter dated 4/16/71 from Mr. Stanley Sirote, President, pertaining to the inaccurate certifications.

APPENDIX TO AUDIT REPORT, SERVICER'S HANDLING OF DELINQUENCIES

A delinquency report on the Servicer's total portfolio is attached. The Servicer's overall delinquency ratio at 3/31/71 was 11.2% on a portfolio of 3,623 mortgages, as compared to 6.4% for FNMA mortgages.

In a conference with Regional Office representatives on 3/17/71, the Servicer discussed its high delinquency ratios during the past two years and outlined the steps it would take to reduce the ratio. In this regard, the Servicer reduced its delinquency ratio from 7.9% in February to 6.6% in March and reported a delinquency ratio of 5.8% at the close of April 1971.

INTER-ISLAND MORTGAGEE CORP.,
Jamaica, N.Y., April 16, 1971.

Mr. FREDERICK MAGUIRE, Sr.

Auditor, Federal National Mortgage Association, Philadelphia, Pa.

DEAR MR. MAGUIRE: Reference is made to the 10 Puerto Rico loans which were purchased by the agency, a list of which is attached, and the fact brought to my attention the unpaid principal balance certified to on FNMA form 305 was incorrect.

I wish to explain in full the events leading to the improper certification and ask that you kindly submit this letter with your Audit Report to the Federal National Mortgage Association.

Prior to January 1971, the books relating to loans located in the Commonwealth were maintained at our Bayamon office and payments made by mortgagors on loans in warehouse were recorded by our personnel there. At the beginning of each month a warehouse delinquency list was prepared and sent to our New York office which was used as a guide for shipping purposes. If a loan did not appear on the delinquency list, it was taken for granted the payment was made and shipped according to the unpaid balance. Apparently, through inadvertence on the part of personnel in Puerto Rico, the 10 loans in question were reported to New York as current, when, in fact, the payments were not received. However, the payment was posted during the month the loan was shipped to the agency and in no case was the delinquency carried into the next month. Of the 10 cases audited, subsequent payments were made after the purchase date and 7 of the 10 are presently current. With reference to the 3 cases that are not current, if the agency feels that it would be to the best interest of both parties concerned that we repurchase these mortgages, we will be glad to do so.

As you know, we are constantly striving to enhance our servicing operation and to facilitate this action a more stringent control has been effected by transferring the books and records of our Puerto Rico operation to our offices in New York, therefore, this condition could not possibly exist in the future. Payments are received in Bayamon and transferred immediately for posting and all record keeping, with shipping done exclusively out of New York.

Inter-Island Mortgage Corp. entered the servicing of mortgage loans in 1964 and has been servicing for the agency since 1966, complying with all terms and conditions set forth in the Servicers Guide and sincerely regret this error.

I trust this explanation meets with your approval and assure you it will not be repeated in the future.

Very truly yours,

STANLEY SIROTE, *President.*

Enclosure.

1-52-803301-8*, 1-52-803512-1*, 1-52-803078-1*; 1-52-803372, 1-52-803303
1-52-803110, 1-52-803067, 1-52-802852, 1-52-802676, and 1-52-802454.

*In foreclosure.

CORDERO Marrero, Jose
BO. MOROVIS NORTE
Carr. 155 Km 50 H 3
Morovis, Puerto Rico

LOAN # 003053

BO. MOROVIS NORTE

Carr. 155 Km 50 H 3
Morovis, Puerto Rico

FHA-VA # 501-119189-2035

FHA-VA 1-

A. 5.29.70	DATE	BANK
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4790-203067-618

57

[illegible]

LATE CHARGES: \$2.12
BROKER: Puerto Rico R.
as

003025

TITLE #

FHA-VA F

DATE 11-1-4

1. The first part of the paper is devoted to a general discussion of the problem of the existence of a solution of the system of equations (1) for arbitrary values of the parameters α and β . It is shown that the system of equations (1) has a solution for arbitrary values of the parameters α and β if and only if the condition $\alpha + \beta = 1$ is satisfied. This condition is also necessary for the existence of a solution of the system of equations (1) for arbitrary values of the parameters α and β .

MONTHLY PAYMENT

Taxes

insol.

FMA in

TELE ESCROW

3912.

TOTAL

ॐ

LATE CHARGES: 3-72

3702er. Telsa

2-11-71

ANTONIO FIGUEROA ROSARIO, m/l p/ame.

3027

4790

MORTGAGOR

CALLE SANTO DOMINGO, SANTO DOMINGO

PREMISES

Calle Abante 210

SAN JUAN, PUERTO RICO

501-111477-2032

WAREHOUSE	FB OF A.	4.13.70	DATE	BANK	4790-802695-6	13	DATE	AMOUNT	ESCROW	INTEREST	PRINCIPAL BALANCE	REDUCTION	PRINCIPAL	DATE
ESCHOW	ORIGINAL	LOAN INFORMATION	DATE PAID	DATE PAID	DATE PAID	DATE PAID	DATE PAID	DATE PAID	DATE PAID	DATE PAID	DATE PAID	DATE PAID	DATE PAID	DATE PAID
1. Taxes	Amount	\$22,800.00	1	4.10.70	92.94	-0-	92.94	92.94	197.00	197.00	22,800.00	22,800.00	22,800.00	1
2. Insur.	Rate	8 1/2	2	7.12.70	8.27	8.27	8.27	8.27	8.27	8.27	8.27	8.27	8.27	2
3. FMA MS.	Type	FED.	3											3
4. Audit	Term	30 YRS.	4											4
5. Serv.	Mt. Pmt	\$197.00	5	7.12.70	8.27	8.27	8.27	8.27	8.27	8.27	8.27	8.27	8.27	5
6	Wrt Date	4.10.70	6											6
7	1st Pmt	6.1.70	7											7
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MONTHLY PAYMENT

Taxes

Insur.

FMA MS.

1st Pmt

10th Pmt

LAST CHARGES: \$2.94

RECEIVED: 4.13.70

BY: NOTA

MORTGAGOR
PREMISES

SANTOS Santos, Jacinto

BO. CADELARIA

Carr. 863 Km 1.8

Tor. Bego, Puerto Rico

LOAN # 003010

TITLE #

FMA-VA # 501-117077-2035

ESCROW CODE	ORIGINAL LOAN INFORMATION
1-THRES	APR-M \$20,550.00
2-INSUR.	Rate B 1/2
3-FMA Ins.	Type FMA
4-Water	Term 30 YRS.
5-Spec	No. Pymt. \$174.00
	Mise Date 3.24.70
	1st Pymt. 5.1.70

MONTHLY PAYMENT	
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Taxes	
INSUR.	6.50
FMA Ins.	8.53
	.94
TOTAL ESCROW	15.97
INT. & PRINC	158.03
TOTAL	174.00
Cod No.	

CHARGES: \$3.48
Mer: Magnolia

DATE	AMOUNT RECEIVED	ESCROW PREVIOUS	ESCROW POST	BALANCE	INTEREST AMOUNT	LATE CHG.	PRINCIPAL PREVIOUS	PRINCIPAL NEW	PRINCIPAL REDUCTION	
3-24-70	30.05	-0-	30.06	30.06	38.82		2055800			
5-10-70	174.00		174.00	174.00	174.00		2055800	174.00		
7-14-70	ET		46.03	46.03						
7-14-70	46.03		46.03	46.03			2055800			
6							1055494			
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MORTGAGOR
PREMISES

SANTOS Santos, Jacinto
BO. CANDELARIA

Car. 833 Km 1.8

TOG. 21.07, Puerto Rico

APPROVED F.B. Of A. 3.25.70 DATE

BANK

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NET CHARGES: \$3.48
Net: Magroliia

LOAN # 003010

TITLE #

FHA VA # 501-117077-2035

DATE 5/89-2035

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MORTGAGOR
PREMISES

SAURI RODRIGUEZ, Wilfredo

LOAN # 003064

LOMAS VERDES
Calle Ucar 4 R-46
Bayamon, Puerto Rico

TITLE #

501-119839-203b

6447-203b203b

WARRANT SEC NB OF A. 5.29.70 DATE BANK 4790-803303-2

ESCRON #	ORIGINAL	DATE	AMOUNT	RECEIVED	ESCROW	BALANCE	INTEREST	LATE CHG	PRINCIPAL	REDUCTION	IPAL	INCIPAL	DUCTION
1. Taxes	Actuals \$16,850.00	5.27.70	24.68	10-	24.68	24.68	19.89		16,850.00				
2. Insur	RUB. 8 1/2	8-28-70	E.T.		24.68								
3. F-A Ins.	Type FFA												
4. Water	Term 30 YRS.												
5. Sewer	No. Pmt \$142.00	8-20-70	24.40		24.40								
6. Misc	Wage Dues 5.27.70												
7. Pmt	1st Pmt 7.1.70												
8. Total													
9. Monthly Payment													
10. Total													
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LATE CHARGES: \$2.84
Broker: Hernandez R.

MORTGAGOR
PREMISES

RIVERA, Roque A.
EXT. FOREST HILLS
Aterras St. #123
Bayamon, Puerto Rico

LOAN # 003018

TITLE #

FHA VA # 501-117496-2033

WAKE-UPSED FB OF A. 4.8.70 DATE BANK

4790-803110-1 13

0415 2033

ESCROW CODE	ORIGINAL LOAN INFORMATION	DATE PAID	AMOUNT RECEIVED	ESCROW PREVIOUS	ESCROW PAID OUT	BALANCE	INTEREST AMOUNT	LATE CHG	PRINCIPAL BALANCE PREVIOUS	PRINCIPAL BALANCE NEW	PRINCIPAL REDUCTION	PRINCIPAL DEDUCTION
1 Taxes	Amount: \$15,000.00	1	4-2-70	22.12	-0-	22.12	102.71		15,000.00			
2 Insur.	Rate 8 1/2	2	4-2-70	127.00		127.00			14,873.00			
3 FHA Ins.	Type FHA	3	9-14-70	3377		3377						
4 Water	Term 30 yrs.	4										
5 Sewer	No. Pymt \$127.00	5										
6	Mile. Dist 4.2-70	6	8-14-70	3377		3377			14,535.00			
7	1st Pymt 6.1-70	7							14,535.00			
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MONTHLY PAYMENT

Taxes

Insur.

FHA Ins.

Total Escrow

Int. & Princ.

TOTAL

Co# NO. 085-054-447-37-001

LATE CHARGES: \$2.54

BROKER: Hernandez

U.S.

INTER-ISLAND MORTGAGEE CORP.,
Jamaica, N.Y., August 26, 1971.

Attention: Kenneth A. Duncan, Regional Vice President.

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
Philadelphia, Pa.

DEAR MR. DUNCAN: I am pleased to inform you Financial Services Incorporated has informed me commencing immediately the actual date of items returned for non-sufficient funds will be posted rather than the first day of the month effected.

Best regards.

Sincerely,

KATHERINE KOURY,
Senior Vice President.

INTER-ISLAND MORTGAGEE CORP.,
Jamaica, N.Y., August 12, 1971.

Attention: Mr. Fred Schunke, President.

FINANCIAL SERVICES INC.
Glen Rock, N.J.

DEAR MR. SCHUNKE: A recent audit conducted by Federal National Mortgage Association at Inter-Island Mortgagee Corp. revealed the due date on items returned for "non sufficient funds" does not reflect the actual date the action took place. This not being in line with their requirements we must insist that all items reflect actual dates in the future.

I would appreciate your immediate reply and trust you will comply with the above immediately.

Sincerely,

KATHERINE KOURY,
Senior Vice President.

AUGUST 6, 1971.

Re FNMA Audit.

Mr. STANLEY SIROTE,
President, Inter-Island Mortgagee Corp.,
Jamaica, N.Y.

DEAR MR. SIROTE: This will refer to your letter dated July 6, 1971 regarding a recent FNMA audit of your records and procedures.

In your reply, you offered the following comment as to why you showed on the Mortgage Payment Record, the date NSF checks (for installments) are reversed:

"With regard to finding #10 item 1, our computer service, Financial Services Inc., are unable to show the actual date on an time returned for 'insufficient funds', and after lengthy discussions with Financial and other Mortgagees using their service they are unable to comply with our request. We are, however, negotiating with IBM for the purpose of installing our own computer and trust we will have 'in house' service on or before June 1972, at which time we will be in a position to program according to the Agency's requirements. Until such time, we ask your indulgence regarding these findings."

Section 202 of the Servicers Guide provides that the mortgage account record for each mortgage shall show the date of each transaction affecting the amounts due to or from the mortgagor.

We consider item (i) of finding #10 as an uncleared matter and we would like to be apprised of what means you intend to employ in correcting the deficiency within a reasonable period of time.

Sincerely yours,

K. A. DUNCAN.

JULY 15, 1971.

AUDIT OF SERVICER,
Inter-Island Mortgagee Corp.,
Jamaica, N.Y.:

In reply to your letter of 6/30/71 concerning certain deficiencies, the Servicer's letter of 7/6/71 includes the following comment on its failure to show on the Mortgage Payment Record the date NSF checks (for installments) are reversed:

"With regard to Finding #10, item 1, our computer service, Financial Services Inc., are unable to show the actual date on an item returned for 'insufficient funds', and after lengthy discussion with Financial and other Mortgagees using their service they are unable to comply with our request. We are, however, negotiating with IBM for the purpose of installing our own computer and trust we will have 'in house' service on or before June 1972, at which time we will be in a position to program according to the Agency's requirements. Until such time, we ask your indulgence regarding these findings."

Section 202 of the Servicer's Guide provides that the mortgage account record for each mortgage shall show the date of each transaction affecting the amounts due to or from the mortgagor.

Based on the Servicer's present plans, it appears that the prospects of curing the above deficiency are rather uncertain.

We consider item (i) of finding #10 as an uncleared matter and suggest you contact the Servicer for some means of correcting the deficiency within a reasonable period.

ARTHUR W. MILLER.

INTER-ISLAND MORTGAGEE CORP.,
Jamaica, N.Y., July 6, 1971.

Attention: Kenneth A. Duncan, Regional Vice President.

FEDERAL NATIONAL MORTGAGEE ASSOCIATION,
5 Penn Center Plaza, Philadelphia, Pa.

DEAR MR. DUNCAN: Reference is made to your letter dated June 30, 1971, and items #6, 8 and 10 of the audit report which were not resolved in our answer previously submitted.

In reply to Finding # 6, item 2, perhaps we did not make ourselves clear in our original answer, and wish to reiterate at this time. Prior to this audit report our servicing department reflected the date the loan was satisfied rather than the date the check was actually received to apply to the loan balance. As you know, there are times when Title Companies are somewhat lax in remitting the check therefore, a spread between the satisfied date and the date of the check received exists. In the future all satisfactions will reflect the date the check is actually received rather than the date the loan is satisfied in order to tie in.

With regard to Finding #8, the certification letter signed by Carmela L. Gregory was forwarded to the agency.

With regard to Finding #10, item 1, our computer service, Financial Services Inc., are unable to show the actual date on an item returned for "insufficient funds", and after lengthy discussion with Financial and other Mortgagees using their service they are unable to comply with our request. We are, however, negotiating with IBM for the purpose of installing our own computer and trust we will have "in house" service on or before June 1972, at which time we will be in a position to program according to the Agency's requirements. Until such time, we ask your indulgence regarding these findings.

Thank you for waiving the \$1,000.00 deductible clause in our Fidelity Bond, and we assure FNMA any loss that results from this deduction will be assumed in total by this servicer.

I trust the above reply is satisfactory, however, should you require any further information, please do not hesitate to contact me.

Sincerely,

STANLEY SIROTE, *President.*

JUNE 30, 1971.

MR. STANLEY SIROTE,
*President, Inter-Island Mortgage Corp.,
Jamaica, N.Y.*

DEAR MR. SIROTE: Thank you for your letter dated June 9, 1971, relative to the clearance of exceptions taken by our auditor in the recent audit of your records and procedures. However, your reply was incomplete as follows:—

In reference to Finding #6 (ii), you failed to indicate what steps were being taken to expedite the deposit of funds received from paid-in-full loans.

With regard to Finding #8, you stated that corrective actions are being taken to reimburse the mortgagors' accounts for tax penalties previously charged and that a "letter of certification will follow upon completion." Has this task been completed? If so, please forward the letter of certification so that we may clear this finding.

Item (i) of Finding #10 concerns your failure to show on the payment records the actual dates that NSF checks are reversed. Your letter states that: "We have discussed with our service bureau, Financial Services, Inc., this exception and they have informed us their computer is not programed to reflect the actual date of reversals on checks returned for non-sufficient funds on the loan ledger." what plans have you made to resolve and clear this finding?

We hereby approve your request for a waiver of FNMA's Fidelity Bond requirements (Deductible Clause) in the amount of \$1,000.00 provided FNMA will be reimbursed for any loss which might occur as a result of this approval.

Your usual prompt attention to the above will be appreciated.

Sincerely yours,

K. A. DUNCAN.

INTER-ISLAND MORTGAGEE CORP.,
Jamaica, N.Y., June 28, 1971.

Att: Mr. K. A. Duncan, Regional Vice President.

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
Philadelphia, Pa.

DEAR MR. DUNCAN: With further reference to the exceptions found during your recent audit, particularly to your letter dated June 2, 1971, we wish to confirm that we have today reimbursed the respective mortgagors of the following accounts for penalties charged to their deposit accounts:

Loan number and date paid:	Penalty Reimbursed
31-701845, Feb. 24, 1970-----	\$2. 05
31-702426, Mar. 26, 1970-----	7. 00
31-800738, Apr. 30, 1970-----	1. 75
31-800616, Apr. 30, 1970-----	1. 47
Total-----	12. 27

The personnel involved have been instructed not to make such charges in the future.

Cordially,

CARMELA L. GREGORY,
Assistant Treasurer.

JUNE 23, 1971.

AUDIT OF SERVICER,
Inter-Island Mortgage Corp.,
Jamaica, N.Y.

Reference is made to the letter dated June 9 from the captioned Servicer regarding the findings reported in our recent audit.

In replying to finding No. 6 Item (ii), the Servicer's letter does not indicate that steps are being taken to expedite the deposit of funds received from paid-in-full loans.

For finding No. 8, the Servicer stated that corrective actions are being taken to reimburse the mortgagors' accounts for tax penalties previously charged and that a "letter of certification will follow upon completion." We suggest that a follow-up be maintained for the above letter.

Item (i) of finding No. 10 concerns the Servicer's failure to show on the payment records the actual dates that NSF checks are reversed. The Servicer's letter states that: "We have discussed with our service bureau, Financial Services, Inc., this exception and they have informed us their computer is not programed to reflect the actual date of reversals on checks returned for non sufficient funds on the loan ledger. Perhaps in the future their operation can be amended and if so they have agreed to inform us immediately."

We do not consider the above explanation as a satisfactory clearance of this finding.

In regard to finding No. 12, we would appreciate being advised of the actions taken by the Regional Office in regard to the Servicer's request for a waiver of FNMA's Fidelity Bond requirements (Deductible Clause).

ARTHUR W. MILLER.

JUNE 9, 1971.

SERVICER'S DEFICIENCIES RELATING TO AES REPORTS TO LOAN ACCOUNTING
DIVISION

Our report dated 5/24/71 on the audit of Inter-Island Mortgagee Corporation included the following findings relating to reports submitted by the Servicer to the Loan Accounting Division, Washington Office:

(FINDING #2) DELAYS IN REMITTANCES AND INCORRECT DATES SHOWN ON CASH
RECEIPT VOUCHERS

The amount of the remittances involved and the periods of collection covered, as shown on the Cash Transmittal Advices, should indicate to a reviewer (Loan Accounting Division) that the Servicer is not complying with FNMA's requirements for prompt remittances.

(FINDING #5) UNPAID PRINCIPAL BALANCE NOT RECONCILED WITH FNMA'S RECORDS

As reported in the finding, the Servicer had not reconciled the mortgage balances (as shown by its records) with the trial balance received from FNMA.

When trial balances are sent to Servicers, it is suggested that FNMA instruct the Servicers to reconcile such balances with the Servicers' records.

Two other findings concern reports to Loan Accounting Division, but the errors or omissions involved here would not be readily discernible in the routine reviews by the above Division. However, we are listing them for informational purposes.

(FINDING #6) PAYOFFS NOT PROPERLY HANDLED

(FINDING #7) REPORT OF FNMA CUSTODIAL ACCOUNT NOT PREPARED CORRECTLY

You may wish to refer the subjects covered by findings number 2 and 5 to the supervisory personnel of the Loan Accounting Division.

ARTHUR W. MILLER.

INTER-ISLAND MORTGAGEE CORP.,

Jamaica, N.Y., June 9, 1971.

Attention: K. A. Duncan, Regional Vice President.

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
Philadelphia, Pa.

DEAR MR. DUNCAN: Reference is made to your letter dated June 2, 1971, and the exceptions found by your auditor upon completion of our records and procedures. Exhibit A, item 1-

Reference is made to the 10 Puerto Rico loans, which were purchased by the agency, a list of which is attached, and the fact brought to my attention the unpaid principal balance certified to on FNMA form 305 was incorrect.

I wish to explain in full the events leading to the improper certification and ask that you kindly submit this letter with your Audit Report to the Federal National Mortgage Association.

Prior to January 1971, the books relating to loans located in the Commonwealth were maintained at our Bayamon office and payments made by mortgagors on loans in warehouse were recorded by our personnel there. At the beginning of each month a warehouse delinquency list was prepared and sent to our New York office which was used as a guide for shipping purposes. If a loan did not appear on the delinquency list, it was taken for granted the payment was made and shipped according to the unpaid balance. Apparently, through inadvertence on the part of personnel in Puerto Rico, the 10 loans in question were reported to New York as current, when, in fact, the payments were not received. However, the payment was posted during the month the loan was shipped to the agency and in no case was the delinquency carried into the next month. Of the 10 cases audited, subsequent payments were made after the purchase date and 7 of the 10 are presently current. With reference to the 3 cases that are not current, if the agency feels that it would be to the best interest of both parties concerned that we repurchase these mortgages, we will be glad to do so.

As you know, we are constantly striving to enhance our servicing operation and to facilitate this action a more stringent control has been effected by transferring the books and records of our Puerto Rico operation to our offices in New

York, therefore, this condition could not possibly exist in the future. Payments are received in Bayamon and transferred immediately for posting and all record keeping, with shipping done exclusively out of New York.

Inter-Island Mortgagee Corp. entered the servicing of mortgage loans in 1964 and has been servicing for the agency since 1966, complying with all terms and conditions set forth in the Servicers Guide and sincerely regret this error.

2. The delays mentioned were in connection with servicing fees in that our servicing department would hold back daily remittances to pay same. This will not be done in the future, but our servicing fee will be deducted from the first day's remittances that show an excess of \$2500.00.

3. Effective immediately all escrow funds and any payments made after the day of submission will be transferred to the custodial account within 5 business days after payment is received for the purchase of a loan.

4. In the future late charges will not be accrued, but either collected on the next month's installment or waived completely.

5. Our accountant has been instructed to reconcile our unpaid principal balance with that of the agency's commencing February 1971 to the present.

6. Our servicing department was reflecting the actual satisfaction dates with regard to payoff funds, rather than the date funds were actually received in our office. Personnel have been advised to reflect the actual date the check is received rather than the satisfaction date.

7. We will comply with instructions to show reversals of NFS CHECKS on line 5 rather than on line 2. Also checks reflecting non sufficient funds made by custodial banks will be reflected in section 2 rather than column 6 and all escrow disbursements will be shown in column 1 instead of column 6.

8. All mortgagors will be reimbursed tax penalty charged to their escrow accounts and a letter of certification will follow upon completion.

9. Recently, we completed a hand analysis of all escrow accounts and payments have been increased where necessary. Our computer run off in October did not reflect proper payments, therefore the hand analysis was necessary.

10. Item 1.—We have discussed with our service bureau, Financial Services Inc., this exception and they have informed us their computer is not programmed to reflect the actual date of reversals on checks returned for non sufficient funds one the loan ledger. Perhaps in the future their operation can be amended and if so they have agreed to inform us immediately.

Item 2.—Commencing immediately disbursements made in connection with FHA mortgage insurance premiums will be processed and checks drawn on the same day.

11. All fire loss drafts will be processed through a FNMA custodial account rather than the separate account.

12. Our Fidelity Bond contains a deductible clause of \$1,000.00 and we request a waiver from the agency excepting same.

13. All forms printed for the purpose of informing delinquent mortgagors of the status of their account will be reviewed and amended to delete any threatening language with regard to FNMA accounts.

I trust the above explanations meet with your approval and assure you every effort will be made to correct the errors expeditiously.

Kindest personal regards.

Sincerely,

STANLEY SIROTE, *President.*

FEBRUARY 26 1968.

To: Keegan, Agency Manager, FNMA, Philadelphia.

From: Miller, Agency Director, Exam. and Audit, Philadelphia.

Subject:

Audit of Servicer,
Inter-Island Mortgagee Corporation,
172-23 Hillside Avenue,
Jamaica, N.Y. 11432 and Bayamon, Puerto Rico.

This readit was made because of the serious deficiencies disclosed by our previous audit which we reported to you on February 9, 1967.

We have examined the records maintained by this Servicer on FNMA mortgages, and reviewed its procedures for servicing these mortgages. The audit began on January 31 and ended on February 8, 1968.

At December 25, 1967, the effective date of our audit, the Servicer was servicing 295 mortgages from its office in Jamaica, N.Y. and 157 mortgages from its office

in Bayamon, Puerto Rico, for the Philadelphia Agency. The Jamaica office prepares all of the reports, and both of the FNMA Custodial Accounts are maintained in Jamaica, N.Y. The servicer services 1,453 mortgages for itself and other investors.

Four findings are shown on Exhibit A. These findings were discussed with Mr. Stanley Sirote, President, who agreed to correct the deficiencies shown by findings 1 through 3, but we were unable to obtain an agreement for clearance of finding 4.

For Finding No. 4 we recommend that the Servicer make arrangements to—(i) deposit in the FNMA Custodial Account, the collections from the Puerto Rico office on the day following the dates of collection; and (ii) show on the mortgage ledger cards, the dates the payments were received from the mortgagors, for collections made at each office.

Findings 1, 2, 3, and 4 are serious, in our opinion because they show material deficiencies in the Servicer's records or procedures. However, we believe that the Servicer's performance has improved since our previous audit.

In our opinion, the Servicer's failure to clear 3 findings (Exhibit A) taken in our previous audit shows the need for these deficiencies to be corrected immediately and we suggest that the Servicer be required to describe in detail the steps it will take to correct the deficiencies shown by these findings.

Exhibit B contains 4 findings which we did not consider serious. These were discussed with the Servicer's officials who have agreed to take the appropriate action. No further action is necessary.

The Appendix to this report contains additional information and comments concerning the Servicer's activities.

We shall appreciate a copy of your letter to Mr. Stanley Sirote, President, confirming the agreements for clearance, and a copy of the Servicer's reply.

ARTHUR W. MILLER.

EXHIBIT A

FEDERAL NATIONAL MORTGAGE ASSOCIATION, EXAMINATION AND AUDIT
DIVISION, FIELD OFFICE, PHILADELPHIA

FINDINGS—AGREED TO CLEAR

1. REMITTANCES NOT MADE PROMPTLY (SEC. 205 SERVICERS GUIDE)

The volume of collections of the Servicer's Jamaica office for the months of October and the two subsequent months was sufficient to require that remittances be made to FNMA twice weekly. However, 8 of the 13 remittances to the Agency during the months of November and December 1967, and January 1968, included funds that were received by FNMA 5 to 7 business days after the date of collection by the Servicer.

The Servicer's procedures provide for remittances (Jamaica office collections) to FNMA on a weekly basis, and the funds are mailed to FNMA each Friday.

This matter was included in a finding in our previous audit.

(a) Mr. Stanley Sirote, President, stated that from now on, all collections would be remitted in accordance with the schedule shown in the above section of the Servicers Guide.

2. FUNDS NOT TRANSFERRED TO CUSTODIAL ACCOUNT AT TIME OF PURCHASE OF MORTGAGES—BY—FNMA (SEC. 204 SERVICERS GUIDE)

Under the Servicer's procedures for Puerto Rico mortgages, the mortgagors' escrow funds and installments received subsequent to the date the mortgages are submitted to FNMA for purchase, are not transferred promptly to the FNMA Custodial Account after FNMA purchases the mortgages.

In at least 16 cases during the months of December 1967 and January 1968, the mortgagors' escrow funds on hand at date of submission, and installment payments made after submission (prior to purchase of the mortgage) were not transferred to the FNMA Custodial Account until 13 to 21 days after the Servicer received payment for the mortgage.

(a) Mr. Sirote stated that in the future, mortgagors' escrow funds on hand and any installment payments made after the date of submission, will be transferred to the FNMA Custodial Account within a week after receiving payment from FNMA for the mortgage.

3. LATE PAYMENTS ACCEPTED AND MORTGAGOR BILLED FOR LATE CHARGES OVER A PERIOD OF SEVERAL MONTHS (SEC. 105 SERVICERS GUIDE)

The Servicer accepted installments after the 15th of the month without late charges, but continued to bill for and collect these late charges after the date the next installments were received. The mortgages involved are shown as follows:

Mortgage No.	Installment accepted without late charge after 15th		Installments accepted prior to collecting the late charge	Date of collection of late charge on installment in col. (2)	Amount of late charge
	Due date	Date collected			
31-248612.....	Feb. 1, 1967	Feb. 23, 1967	Mar. 1, Apr. 1, May 1.....	June 7, 1967	\$2.34
	Mar. 1, 1967	Mar. 16, 1967	Apr. 1, May 1.....	do.....	2.34
31-252590.....	Dec. 1, 1966	Jan. 11, 1967	Jan. 1.....	Mar. 27, 1967	3.34
31-267387.....	Apr. 1, 1967	Apr. 24, 1967	May 1.....	Aug. 8, 1967	2.96
52-264212.....	May 1, 1967	May 19, 1967	June 1.....	July 13, 1967	3.96
52-262102.....	Aug. 1, 1967	Sept. 14, 1967	Sept. 1.....	Nov. 6, 1967	1.90

Under the Servicer's automated billing procedure (Financial Service Inc. — Service Bureau), late charges are accrued and billed on installments not paid by the 15th of the month. However, when an installment is accepted from a mortgagor without the accompanying late charge, and this charge is not collected at the time the next payment is received, the Servicer does not have a procedure to remove the accrual from the billing records.

This matter was the subject of a finding in our previous audit.

(a) Mr. Sirote stated that the Servicer would install a procedure to discontinue accruing and collecting late charges which are not received with the next monthly installment, following the installment on which the late charge is assessed.

FINDING—NOT AGREED TO CLEAR

4. DEPOSITS NOT MADE PROMPTLY AND CORRECT TRANSACTION DATES NOT SHOWN ON MORTGAGE LEDGER CARDS (SEC. 202 AND 204 SERVICERS GUIDE)

(i) Funds collected in the Servicer's Puerto Rico office arrive in the Jamaica N.Y. office one, or two days later, and are deposited the following day by the Jamaica office, resulting in funds being deposited 2 or 3 days after the date of collection.

(ii) The Servicer's Service Bureau shows the date of posting as the transaction date for all collections. In most cases this would be 1 day later than the date of collection for New York collections, and 2 or 3 days later for Puerto Rico collections.

Item (i) was included in a finding in our previous audit.

(a) Mr. Stanley Sirote, President, stated, regarding item (i) that because of the mail transit time of one to two days for receiving the collection froms Puerto Rico, the Servicer cannot deposit funds in the FNMA Custodial Account on the day following collection.

Also, concerning item (ii), Mr. Sirote stated that he believed it would take a major change in the Service Bureau's program to post payments as of the actual date of collection and that he did not consider such a change feasible.

FEDERAL NATIONAL MORTGAGE ASSOCIATION, EXAMINATION & AUDIT DIVISION, FIELD OFFICE, PHILADELPHIA

FINDS—AGREED TO CLEAR

5. SIGNED DUPLICATES OF BONDS IN SERVICER'S FILES

The Servicer's files contained signed copies of at least five mortgage bonds which were not properly identified as duplicate copies.

This was included in a finding in our previous audit. At that time, the Servicer installed a procedure to identify mortgage bonds as "copies" when such documents are prepared. However, the Servicer did not review the mortgage files and make the above identifications for the mortgages sold to FNMA prior to the first finding.

(a) Mr. Sirote agreed to review the files for all mortgages sold to FNMA prior to the date of our previous visit, and stamp "copy" on all signed copies of bonds contained in these files.

6. ENDORSEMENT TO FIDELITY BOND NOT OBTAINED (SEC. 101 SERVICERS GUIDE)

The Servicer's fidelity bond does not have an endorsement to provide that FNMA be advised if the fidelity bond is cancelled for any reason and we found no evidence that the insurer had been requested to advise FNMA in the event of such cancellation.

(a) Mr. Stanley Sirote, President, stated that the insurer would be instructed to notify FNMA immediately if the fidelity bond is cancelled for any reason and that an acknowledgement of the letter of instructions would be obtained from the insurer.

7. MORTGAGEE CLAUSES NOT ADEQUATE (SEC. 120 SERVICERS GUIDE)

(i) In three cases the mortgagee clause of the hazard insurance policies showed the Servicer and the Servicer's warehouse bank as mortgagees.

(ii) In five cases, the mortgage clause read "Federal National Mortgage Association and/or Inter-Island Mortgage Corp. as interest may appear."

(iii) One clause read "Federal National Mortgage Association C/o Inter-Island Mortgage Corp. as interest may appear."

This matter was included in a finding in our previous audit.

(a) Mr. Sirote stated that the Servicer would review all FNMA policies and, where necessary, obtain endorsements showing FNMA (as mortgagee), C/o Servicer, at the Jamaica, N.Y. address.

8. INADEQUATE PROCEDURES DURING PERIOD THAT SERVICING WAS DEFERRED ON MORTGAGES IN FORECLOSURE (SEC. 111, 116 SERVICERS GUIDE AND FNMA FORM 164)

(i) For loan 31-252136-ST, property inspections were not made for the months of May 1967 through January 1968, although the Servicer received notice (FNMA Form 164) on April 28, 1967 that servicing had been deferred. The mortgage was in foreclosure at the date of our visit (2/8/68).

(ii) For at least four mortgages that were in foreclosure (loans 31-266143-KK, 31-252136-ST, 31-267285-KK, and 31-268830-KK), the Servicer disbursed funds without prior FNMA approval after the submission of FNMA Form 170 (Statement of Account For Liquidation).

From our review of other cases, we believe that the omission shown in item (i) was an oversight. For item (ii), the Servicer apparently was not aware of FNMA's requirements.

The Agency wrote to the Servicer concerning item (ii).

(a) Mr. Sirote stated that regarding item (i), the Servicer would make a property inspection for loan 31-252136-ST immediately and greater care would be taken to assure that in the future, monthly inspections are made of all properties during the foreclosure period after the Servicer receives FNMA Form 164.

Regarding item (ii), he stated that the Servicer would submit a FNMA Form 77 (Miscellaneous Disbursement Voucher) with the Agency to request funds and prior approval, for any disbursements for the mortgagor's account after the Form 170 has been sent to FNMA.

JAMAICA, NEW YORK OFFICE

	January 1968	December 1967	November 1967	June 1967
1 month.....	17	18	13	12
2 months.....	7	3	2	4
Over 2 months..	4	3	2	1
Total ..	28	24	17	17
Percentage.....	8.2	8.3	6.2	10.5
Portfolio.....	346	295	279	163

BAYAMON, PUERTO RICO OFFICE

	January 1968	December 1967	November 1967	March 1967
1 month.....	17	27	16	33
2 months.....	11	2	5	11
Over 2 months.....	1	2	2	4
Total.....	29	31	23	48
Percentage.....	16.5	19.9	16.0	33.3
Portfolio.....	177	157	145	144

Mr. Solomon and Mr. Stanley Sirote, President, attributed the Servicer's high delinquency ratio for the New York area to unemployment, and for both areas to—(i) marital difficulties of mortgagors; (ii) low income of mortgagors; and (iii) mortgagors who pay between the 25th and the end of the month. The Servicer's records showed that at the end of January 1968, the number of delinquencies for Jamaica had been reduced to 6 (from 28) and for Puerto Rico to 13 (from 29). Regarding item (iii), Mr. Solomon stated that the Servicer would begin making face-to-face contacts during the early part of the first month of delinquency in an effort to expedite payments. Mr. Solomon also stated that the Servicer had recently hired a new employee who would work full time on FNMA accounts.

SERVICER'S POLICY ON LATE CHARGES

The Servicer collects late charges on installments received after the 15th of the month, and these charges are handled in accordance with FNMA requirements except as shown by Finding 3.

SERVICER'S FIDELITY COVERAGE

The Servicer's fidelity coverage of \$150,000.00 meets FNMA requirements. Errors and omissions coverage in the amount of \$25,000.00 (each occurrence) is also carried.

FEES COLLECTED FROM MORTGAGORS

The Servicer collects the following fees: A \$25.00 fee for change in ownership when the mortgagor is released from liability, and a \$2.50 fee for mortgagors' checks returned by the bank NSF.

FEDERAL NATIONAL MORTGAGE ASSOCIATION, EXAMINATION & AUDIT DIVISION,
FIELD OFFICE, PHILADELPHIA

APPENDIX TO AUDIT REPORT AS OF DECEMBER 25, 1967

SERVICER'S DELINQUENCY PROCEDURES

About the 29th day of each month, the billings for the next month's installments are mailed to the mortgagors. As payments come in, they are compared with the current transaction cards and the permanent mortgage payment records are posted to date.

First notices to mortgagors are mailed by the Service Bureau on the 10th of the month, with a follow-up notice about the 15th of the month. Further contacts are made by letters, telephone calls and personal visits. The personal visits are begun around the end of the first month and continued where necessary. The Servicer usually does not accept one installment when two or more are due.

Mr. Louis Solomon, in charge of delinquencies in the Jamaica office, spends his full time on delinquencies and is assisted by 5 field men. Mr. Michael Sirote, Vice President, is in charge of delinquencies in the Puerto Rico office. Mr. Sirote spends a part of his time on delinquencies and is assisted by five field men.

Opinion

In our opinion, the Servicer's delinquency procedures are adequate.

Delinquency procedures for other investors

Mr. Louis Solomon, states that the Servicer uses the same delinquency procedures for itself, other investors and FNMA. A delinquency report on the Servicer's total portfolio is attached. The Servicer's delinquency ratio at January 31,

1968, was 14.6% on a portfolio of 1,252 mortgages (exclusive of FNMA and warehouse mortgages) as compared to 8.2% for FNMA mortgages (Jamaica) and 16.5% for FNMA mortgages (Puerto Rico).

Delinquency ratio:

A comparison of the Servicer's most recent delinquency ratio as at January 25, 1968, and two preceding months, and the month with the highest delinquency ratio in the year ended January 25, 1968, is as follows:

SERVICER'S OPINION ON MORTGAGE MARKET

The Servicer sent a letter dated February 5, 1968.

CLEARING AND CUSTODIAL ACCOUNTS

All clearing and custodial bank accounts are in banks insured by the Federal Deposit Insurance Corporation.

Audit Performed by Frederick C. Maguire.

MARCH 29, 1968.

Re Audit report.

MR. STANLEY SIROTE,
*President, Inter-Island Mortgagee Corp.,
Jamaica, N.Y.*

DEAR MR. SIROTE: Your letter of March 19, paragraph No. 4, informs us you are unable to conform to our custodial deposit requirements on receipts from Puerto Rico. We suggest you submit your written request for a waiver of this requirement, with justification for our approval of such a waiver.

Our experience indicates it is very important that a mortgagor's payment record reflect the actual date of receipt of payment. Service bureaus are generally able to meet this requirement without difficulty, and if a major change in their program is required, that change should be accomplished.

Sincerely yours,

Philip J. Lynch,
Assistant Agency Manager.

INTER-ISLAND MORTGAGEE CORP.
Jamaica N.Y., March 19, 1968.

Re Audit report.

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
Philadelphia, Pa.

(Attention Mr. Kevin E. Keegan, Agency Manager).

DEAR MR. KEEGAN: Reference is made to Exhibit A, FNMA Audit Report, which finding we agree to clear as follows:—

1. *Remittances not made promptly.*—We agree to remit collections in accordance with the schedule shown in Servicers Guide Sec. 205.

2. *Funds not transferred to custodial account at time of purchase of mortgages by FNMA.*—All funds will be transferred to FNMA Custodial Account within a week after receiving payment from FNMA for mortgages.

3. *Late payments accepted and mortgagor billed for late charges over a period of several months.*—A procedure has been installed and staff instructed to discontinue accruing and collecting late charges which are not received with the next monthly installment, following the installment on which the late charges are being assessed.

4. *Deposits not made promptly and correct transaction dates not shown on mortgage ledger cards.*—(i) Due to mail transit time of one to two days on receipts from Puerto Rico, we are unable to deposit funds in the FNMA Custodial Account until the day following receipt. (ii) We believe it would take a major change in the Service Bureau's program to post payments as of the actual date of collection and feel such a change would not be feasible.

Be assured all exceptions noted on Schedule B are in the process of being cleared.

Sincerely,

STANLEY SIROTE, *President.*

INTER-ISLAND MORTGAGEE CORP.,
Jamaica, N.Y., April 2, 1968.

(Attention Mr. Philip J. Lynch, Assistant Agency Manager.)

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
Philadelphia, Pa.

DEAR MR. LYNCH: Reference is made to your letter dated March 29, 1968 and your Audit Report.

I have contacted Financial Services, Inc., and they informed me in the future the reporting date and the actual payment date of mortgage installments made in Puerto Rico will cite the date the payment was made.

I trust this meets with your approval.

Sincerely,

KATHERINE KOURY, *Assistant Vice President.*

INTER-ISLAND MORTGAGEE CORP.,
Jamaica, N.Y., April 22, 1968.

(Attention Mr. Kevin E. Keegan, Agency Manager.)

Re Audit report.

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
Philadelphia, Pa.

DEAR MR. KEEGAN: To further clarify our letter of March 19, 1968 in reference to FNMA audit, we are pleased to inform you that we have been able to make provisions for the elimination of the problem in connection with Item No. 4.

Effective May 1, 1968, funds collected will be cabled to New York the same day so that there will be no time lag between the date of collection and date of deposit in the FNMA Puerto Rico Custodial Account, and our service bureau has agreed to post their records as of the date of the deposits.

Very truly yours,

STANLEY SIROTE, *President.*

KEEGAN, AGENCY MANAGER, FNMA,
MILLER, AGENCY DIRECTOR, EXAM. AND AUDIT,
Philadelphia, Pa., February 9, 1967.

AUDIT OF SERVICER,
Inter-Island Mortgagee Corp.,
Jamaica, N.Y. and Bayamon, Puerto Rico.

We have examined the records maintained by this Servicer on FNMA mortgages, and reviewed its procedures for servicing these mortgages. The audit began on January 9, 1967 and ended on January 17, 1967.

At November 25, 1966, the effective date of our audit, the Servicer was servicing 36 mortgages from its office in Jamaica, N.Y. and 91 mortgages from its office in Bayamon, Puerto Rico for the Philadelphia Agency. The Jamaica office prepares all of the reports, and both of the FNMA Custodial Accounts are maintained in New York City. The Servicer services 577 mortgages for itself and other investors.

The Servicer began servicing for FNMA in April 1966 and has not been previously audited.

Seven findings are shown on Exhibit A. These findings were discussed with Mr. Stanley C. Sirote, President, who agreed to correct the deficiencies shown by findings 1 through 6, but we were unable to obtain an agreement for clearance of finding 7.

In connection with finding No. 7, we recommend that the Servicer be instructed that for installment payments received in the Puerto Rico office and deposited in the Servicer's clearing account (to be established), it should transfer such payments by check directly to the FNMA Custodial Account bank in New York City, with details of the deposit to be sent to the Servicer's Jamaica office.

Finding No. 1 concerns three inaccurate certifications and Finding No. 2 concerns inadequate internal control. Also, the other 5 findings in Exhibit A are serious, in our opinion, because they show material deficiencies in the Servicer's records or procedures. This has caused us to classify the Servicer's records and procedures as inadequate to assure compliance with FNMA requirements.

Exhibit B contains 6 findings which we did not consider serious. Those were discussed with the Servicer's officials who have agreed to take the appropriate action. No further action is necessary.

Certain details, which we consider an integral part of evaluation of the importance of the inaccurate certifications by the Seller/Servicer, are shown on Exhibit AA. We do not consider these details appropriate for transmission to the Servicer.

The Appendix to this report contains additional information and comments concerning the Servicer's activities.

We shall appreciate a copy of your letter to Mr. Stanley C. Sirote, President confirming the agreements for clearance, and a copy of the Servicer's reply.

ARTHUR N. MILLER.

EXHIBIT A

FINDINGS—AGREED TO CLEAR

1. INACCURATE CERTIFICATIONS THAT ALL MATURED MORTGAGE INSTALLMENTS HAD BEEN PAID (SEC. 617 SELLERS GUIDE)

On each of three mortgages recently sold to FNMA, the Seller/Servicer had not received the latest matured mortgage installment from the mortgagor at the time mortgage was submitted to FNMA. As shown by Exhibit A-1 attached, the installments for the three mortgages were paid, 24 days, 8 days, and 6 days after the date the mortgages were received by FNMA.

Although the Servicer's procedures provide for the prompt posting of collections, its procedures do not adequately provide for the determination of the status of a mortgage prior to submitting it to FNMA for purchase. Also, the Seller/Servicer's procedures provide for the signing, by authorized personnel, of mortgage submission vouchers in blank and the dating of those vouchers prior to the actual date of submission.

(a) Mr. Stanley C. Sirote, President, stated that corrective measures will be taken to assure that (i) a mortgage is not submitted to FNMA for purchase until the current installment has been received; (ii) submission vouchers will not be signed in blank; and (iii) the submission vouchers will be dated to correspond with the execution of the voucher and submission of the mortgage.

2. INADEQUATE INTERNAL CONTROL (DUTIES OF EMPLOYEES NOT SEGREGATED)

The Servicer's system of internal control for the collection and disbursement of funds, is inadequate because persons who receive over-the-counter payments and handle mail collections, also prepare and sign checks and have administrative authority to accept prepayments and to adjust mortgage escrow accounts.

(a) Mr. Sirote stated that the duties relative to the collection of over-the-counter payments would be segregated from the duties relating to mail collections and disbursement procedures. Also, the administrative authority for acceptance of prepayments and adjustment of escrow accounts would not be given to persons handling collections.

3. REMITTANCES NOT MADE PROMPTLY AND INCORRECT DATES SHOWN ON CASH RECEIPT VOUCHERS (SEC. 205 SERVICES GUIDE)

Nine of 16 remittances to FNMA during the months of October, November and December included payments that were received by FNMA from 7 to 14 days after the installments were received by the Servicer's Jamaica office. Also, the dates of collections reported to FNMA on the Cash Receipt Vouchers (FNMA Form 57) for 7 remittances (including 6 above), were shown as from 6 days before, to 9 days after, the actual dates of collection (overlapping periods of collection were reported from cash journals) and as a result, FNMA had been unaware of the delays in remitting.

Although the Servicer's procedures require a remittance be prepared once each week, the Servicer does not have an adequate procedure to verify that all installments collected have been included in the remittance.

(a) Mr. Sirote stated that the Servicer will install a procedure to include all installments collected to date each time a remittance is made to FNMA. He also stated that the actual dates of collection will be shown on all Cash Receipt Vouchers in the future.

4. NOTICE OF DEFAULT, LOAN SERVICE REPORT, NOTICE OF INTENTION TO FORECLOSE AND STATEMENT OF ACCOUNT FOR LIQUIDATION NOT FILED ON TIME AND RECORD OF EARLY DELINQUENCY CONTACTS NOT RETAINED (SEC. 106 SERVICERS GUIDE)

The Servicer does not have a procedure to file Notices of Default and Loan Service Reports (FNMA Form 145) on or before the 85th day of delinquency. In addition, the Servicer does not have a procedure to file VA Notices of Intention to Foreclose (VA Form 6851) between the 91st and 95th day of delinquency and the Statement of Account for Liquidation (FNMA Form 170) 15 days after FNMA sends its 10-day letter (Form 164) to the mortgagor.

(i) Loan No. 31-247871-SW (Bolton) was 85 days delinquent on September 25, 1966, but the Servicer did not file a Default Notice or a Loan Service Report until October 28, 1966.

(ii) Loan No. 31-252136-ST (Robinson) was 85 days delinquent on August 25, 1966, but the Servicer did not file a Default Notice until September 23, 1966 or a Loan Service Report until October 12, 1966 (the Agency requested a FNMA Form 145 on September 28, 1966). The Agency forwarded a copy of the 10-day letter (FNMA Form 164, copy to Servicer) to the mortgagor on November 17, 1966, however, the Servicer had not filed a Statement of Account for Liquidation (FNMA Form 170) and Notice of Intention to Foreclose (VA Form 6851) at the date of our visit (1/17/67). The VA followed up with the Servicer by letter dated December 20, 1966.

(iii) Loan No. 52-258184-BC (Rodriguez) was 85 days delinquent December 25, 1966, however, the Servicer had not filed a Loan Service Report (FNMA Form 145) or Default Notice.

We examined 7 mortgages delinquent 2 or more installments, including the 3 above, and found the Servicer does not retain any historical records of early delinquency contacts.

(a) Mr. Sirote stated that the Servicer would immediately file a Notice of Intention to Foreclose and Statement of Account for Liquidation for Loan No. 31-252136-ST and a Default Notice and Loan Service Report for loan No. 52-258184-BC. He also stated that the Servicer would:

(i) establish procedures to file Default Notices and Loan Service Reports on or before the 85th day of delinquency;

(ii) establish procedures to file VA Notices of Intention To Foreclose between the 91st and 95th day of delinquency and Statements of Account for Liquidation 15 days after the 10-day letter (FNMA Form 164) is mailed to the mortgagor; and

(iii) retain historical records of early delinquency contacts with mortgagors.

5. INADEQUATE HAZARD INSURANCE PROCEDURES (SEC. 120 SERVICERS GUIDE)

The Mortgagee clauses for 42 hazard insurance policies were incorrect as follows: 23 named FNMA and the Inter-Island Mortgagee Corporation as the first Mortgagee; 10 named the Inter-Island Mortgagee Corporation and 9 named FNMA as first Mortgagee but did not show the address of the Servicer.

For 2 mortgages (52-258137 AX and 52-259510 BC), the address shown in the policy was not the address of the mortgaged property and for 2 other mortgages (52-258184 BC and 52-258577 BC, the property had changed ownership but the policy showed the name of the original owner.

Also, for 1 mortgage (31-252969 SJ), the Servicer accepted a home-owner's policy as a substitute for a fire and extended coverage policy but did not cancel the original policy.

The Servicer does not have procedures for the proper handling of hazard insurance policies for FNMA mortgages, particularly concerning the naming of FNMA as mortgagee, and obtainment of endorsements where changes in ownership or property address occur.

Mr. Sirote stated that the Servicer would review all hazard insurance policies and obtain mortgagee clauses showing FNMA as first mortgagee, c/o Inter-Island Mortgagee Corporation, 172-23 Hillside Drive, Jamaica, N.Y., and obtain endorsements to show the correct property addresses and names of the present owners for the 4 mortgages involved as shown above.

The fire and extended coverage policy for loan no. 31-252969 SJ will be cancelled and a refund obtained for the credit of the mortgagor.

Mr. Sirote also stated that a system would be installed to provide for showing FNMA as first mortgagee on all mortgages sold to FNMA in the future, and that care would be taken to show the names of the current owners of the properties and the correct property addresses.

6. LATE PAYMENTS ACCEPTED AND MORTGAGOR BILLED FOR LATE CHARGES OVER A PERIOD OF SEVERAL MONTHS (SEC. 105 SERVICERS GUIDE)

The Servicer accepted installments after the 15th of the month without late charges. The Servicer continued to bill for and collect these late charges after the date the next installments were received. The mortgages involved are shown as follows:

Mortgage No.	Installment collected without late charge	Date installment collected	Installments collected prior to collecting the late charge	Date of collection of late charge on installment in col. (2)	Amount of late charge
31-252135.....	July 1, 1966.....	July 18, 1966.....	Aug. 1, Sept. 1, Oct. 1.....	Nov. 7, 1966.....	\$2.76
	Sept. 1.....	Sept. 21.....	Oct. 1.....	Nov. 7.....	2.76
52-249048.....	May 1.....	May 18.....	June 1, July 1, Aug. 1, Sept. 1.....	Nov. 16.....	4.60
	June 1.....	July 13.....	July 1, Aug. 1, Sept. 1, Oct. 1.....	Dec. 12.....	4.60
	July 1.....	Sept. 12.....	Aug. 1, Sept. 1, Oct. 1.....	do.....	4.60
	Aug. 1.....	Sept. 21.....	Sept. 1, Oct. 1.....	do.....	4.60
	Sept. 1.....	Oct. 7.....	Oct. 1.....	do.....	4.60
52-249847.....	July 1.....	July 18.....	Aug. 1.....	Sept. 12.....	4.16
52-245899.....	June 1.....	July 13.....	July 1, Aug. 1, Sept. 1, Oct. 1.....	Dec. 5.....	1.58

Under the Servicer's automated billing procedure (Financial Service Inc.—Service Bureau), late charges are accrued and billed on installments not paid by the 16th of the month. However, when an installment is accepted from a mortgagor without the accompanying late charge, and this charge is not collected at the time the next installment is received, the Servicer does not have a procedure to remove the accrual from the billing records.

(a) Mr. Sirote stated that the Servicer would install a procedure to discontinue accruing and collecting late charges which are not received with the next monthly installment, following the installment on which the late charge is assessed.

FINDING—NOT CLEARED WITH SERVICER

7. COLLECTIONS NOT HANDLED PROPERLY AND DELAY IN DEPOSIT (SEC. 204 SERVICERS GUIDE)

The FNMA Custodial Account for the Puerto Rico office is maintained in a New York bank and the mortgagors in Puerto Rico have been instructed to mail payments directly to the Jamaica, N. Y. office, but in many instances, mortgagors' checks are received at the Puerto Rico office and transmitted to the Jamaica office for deposit.

We found that the following checks were not transmitted promptly from Puerto Rico:

Check Dated:	Received at Jamaica office
December 23, 1966 (2 checks).....	January 11, 1967
December 25, 1966.....	January 11, 1967
January 6, 1967.....	January 12, 1967

Cash received for mortgage payments at the Puerto Rico office is deposited in the Servicer's bank account at the First National City Bank, Hato Rey Branch, and a check is drawn on the Servicer's funds and sent to the Jamaica office.

(a) Mr. Sirote stated that the Servicer would establish a clearing account, custodial in nature, in a Puerto Rico bank for the deposit of all collections received at the Puerto Rico office. Mr. Sirote also stated that the funds would be transmitted by a check to the Jamaica office on the day following collection.

However, because of the mail transit time of one to two days, the Servicer will not deposit the funds in the FNMA Custodial Account on the day following the collection. Mr. Sirote requests a waiver of fund's requirements in this regard, to allow transit time for the funds from the Puerto Rico office to the Jamaica office and the deposit by the Jamaica office.

EXHIBIT A-1

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
EXAMINATION & AUDIT DIVISION-FIELD OFFICE,
Philadelphia, Pa.

Re Inter-Island Mortgagee Corp.

FNMA No.	Submission voucher		Last paid installment as shown on submission	Date installment actually received	Number days between date shown on submission voucher and date installment received	Number days between date FNMA received mortgage and date installment received	Status of mortgage at January 25, 1967 (months delinquent)	Immediate purchase contract expired
	Date by seller	Received by FNMA						
	1966	1966	1966	1966				1966
51-258184-BC (Marcano).....	Sept. 20	Sept. 23	Sept. 1	Oct. 17	27	24	4	Nov. 30
31-252590-S1 (Lee)---	May 20	May 25	May 1	June 2	13	8	3	May 27
31-253464-S1 (Holmes).....	May 10	May 13	...do...	May 19	9	6	(1)	May 28

¹ Current.

EXHIBIT AA

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
EXAMINATION & AUDIT DIVISION, FIELD OFFICE,
Philadelphia, Pa.

Re Inter-Island Mortgagee Corp.

During the nine month period ended November 25, 1966, the Seller-/Servicer sold 127 mortgages to FNMA of which 72 mortgages submitted did not have the first installment due at the time of submission. Of the remaining 55 mortgages, we reviewed the Seller/Servicer's records for 19 mortgages submitted by the Jamaica office and 8 mortgages from the Puerto Rico office.

In addition, we examined 5 mortgages submitted but not yet purchased, 3 mortgages offered and accepted but not yet submitted, and 3 mortgages offered, but unaccepted at January 16, 1967, the date of our visit. Our review included 12 mortgages purchased in the above period that were reported delinquent during the past 3 months.

As shown in Finding No. 1, three inaccurate certifications were found. The dates of receipt for the current installments, as shown on Exhibit A-1, are in agreement with the dates on the permanent mortgage payment records. We verified these dates by obtaining photocopies of 2 receipts issued by the Seller/Servicer at the time of payment and one bank money order.

Attached is a letter dated January 16, 1967 from Mr. Stanley C. Sirote, President, outlining certain procedures which could contribute to the inaccuracy of certifications made on Mortgage Submission Vouchers forwarded to FNMA. As shown in the letter and in the clearance of Finding No. 1, the Servicer has a need to install corrective procedures for mortgages forwarded to FNMA for purchase from now on.

One of the procedures that Mr. Sirote indicates will be discontinued, is the practice of executing Mortgage Submission Vouchers in blank. During the course of our audit we found 34 Mortgage Submission Vouchers signed in blank by Miss Katherine Koury, Secretary. Also, Mr. Sirote stated that no one was authorized to execute Mortgage Submission Vouchers in the Puerto Rico office, however, upon our return to the Philadelphia Agency, we inspected the FNMA Forms 11A (Resolution of Board of Directors) and 11B (Certificate of Authorized Signatures) and found that Mr. Michael Sirote, Vice President, is listed as one of the officers authorized to execute contracts in Puerto Rico from September 15, 1964 to the date of this report.

Attachment.

EXHIBIT B

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
EXAMINATION & AUDIT DIVISION, FIELD OFFICE,
Philadelphia, Pa.

Re Inter-Island Mortgagee Corp.

FINDINGS—AGREED TO CLEAR

8. OVERDRAFT IN MORTGAGOR'S ESCROW ACCOUNT (SEC. 122 SERVICERS GUIDE)

The escrow account of Loan No. 31-247871-SW was overdrawn \$36.00 from December 22, 1966 to January 6, 1967,—(installment collected). The Servicer had made a disbursement for a hazard insurance premium but did not determine that the balance was sufficient to cover the disbursement and the Servicer had no procedure to prevent an overdraft.

(a) Mr. Stanley Sirote, President, stated that the Servicer would install a procedure to determine that the balances in mortgagors' deposit accounts are sufficient to cover anticipated disbursements. Where the balances are insufficient, funds will be advanced.

9. UNAUTHORIZED REFUNDS TO MORTGAGORS (SEC. 207 SERVICERS GUIDE)

For mortgages covering properties located in Puerto Rico, the Servicer escrows funds for payment of real estate taxes until a tax exemption certificate is received, exempting the property from real estate taxes. The Servicer then issues a check to the Mortgagor for the tax escrow funds on hand. As an example of this practice, we found that the Servicer issued 3 checks of \$80.00 each, from the FNMA Custodial Account, to mortgagors. (Loans #52-259240, 52-253860, 52-250229.)

(a) Mr. Sirote stated that the Servicer will install a procedure to take into consideration the excess escrow funds in fixing the installment for the coming year; apply such surplus as an additional principal payment; or to one or more full installments.

10. DISBURSEMENT NOT SUPPORTED

At the request of the Puerto Rico office, the Servicer disbursed \$285.00 on November 3, 1966 for payment of real estate taxes for Loan No. 52-257124 BC. The Servicer does not have a tax bill, or receipt for the payment, but the files contain a tax exemption certificate dated October 8, 1966.

(a) Mr. Sirote stated that the Servicer will determine whether the tax paid was actually due and obtain a receipt, or a refund of the amount paid, if in error. He also stated that from now on, the Servicer will see that disbursements are properly supported.

11. SIGNED DUPLICATES OF MORTGAGES AND MORTGAGE BONDS IN SERVICER'S FILES

Ten FNMA mortgage files contained signed copies of mortgages and mortgage bonds. We were advised that many of the attorneys in New York, handling the closings, obtain multiple signed copies of these documents. However, the Servicer does not have a procedure to properly identify these documents as copies.

(a) Mr. Sirote stated that the Servicer would review all mortgage files for the New York mortgages and obliterate the mortgagors' signatures on the above documents, or otherwise identify them as "copies." He also stated that the Servicer would install a procedure to properly identify such documents as "copies" at the time the mortgages are sold to FNMA.

12. CHANGES IN OWNERSHIP AND STREET ADDRESSES NOT REPORTED (SEC. 117 SERVICERS GUIDE)

A change affecting (i) the address of the mortgagor (31-249718-SJ) and (ii) the ownership of the property (52-258184-BC and 52-258577-BC) was not reported to FNMA on Form 120 (Report of Change Affecting Mortgagor or Property Designation). The Servicer apparently was not aware that FNMA is to be notified of such changes by a Form 120.

(a) Mr. Sirote stated that the Servicer would notify FNMA of all changes affecting the mortgagor, or property designation, by using FNMA Form 120. He also agreed to immediately file a Form 120 on each of the above mortgages.

13. INADEQUATE FOLLOW UP TO OBTAIN TAX BILLS (SEC. 119 SERVICERS GUIDE)

For loan No. 31-253222-SJ, the Servicer had not paid 1966 Town of Hempstead, N.Y. and Hempstead School Tax at the date of our audit. The Town and School taxes are due semi-annually.

The Servicer has hired the O'Reilly Tax Service to obtain all tax bills on properties for all serviced mortgages. However, the Servicer does not have a system to verify that all bills due are received from the tax service.

(a) Mr. Sirote stated that the Servicer will (i) obtain the tax bills due for loan No. 31-253222-SJ and (ii) install a procedure to verify that all tax bills are received from its tax service, prior to the due date.

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
EXAMINATION & AUDIT DIVISION, FIELD OFFICE,
Philadelphia, Pa.

Re Inter-Island Mortgagee Corp.

APPENDIX TO AUDIT REPORT AS OF NOVEMBER 25, 1966

SERVICER'S DELINQUENCY PROCEDURES

About the 25th day of each month, the billings for the next month's installments are mailed to the mortgagors. As payments come in, they are compared with the current transaction cards and the permanent mortgage payment records and posted to date.

First notices to mortgagors are mailed on the 10th of the month, with a follow-up notice after the 15th of the month. Letters, telephone calls, and personal visits are begun around the end of the first month and continued where necessary.

Mr. Louis Solomon, is in charge of delinquencies in the New York office, and Mr. Michael Sirote, Vice President, is in charge of delinquencies in the Puerto Rico office. Mr. Solomon spends his full time on delinquencies but Mr. Sirote spends only a part of his time on delinquencies and is assisted by Mr. Jose Flores, Mr. Samuel Alvarez, and Mr. Portaratin Aviler.

Opinion

In our opinion, the Servicer's delinquency procedures are inadequate because of certain deficiencies in the Servicer's procedure as shown by Finding No. 4, and because for chronically delinquent mortgagors, the Servicer continually accepts one installment when two or more installments are due. Also, the Servicer accepts late payments without the applicable late charges being included. We believe these matters may be contributing factors to the Servicer's high delinquency ratio.

Delinquency procedures for other investors

Mr. Louis Solomon, Collection Manager, states that the Servicer uses the same delinquency procedures for itself, other investors and FNMA.

A delinquency report on the Servicer's total portfolio, or the Servicer's overall delinquency ratio was not available.

Delinquency ratio

A comparison of the Servicer's most recent delinquency ratio as at December 25, 1966, and three preceding months, which includes the month with the highest delinquency ratio in the year ended December 25, 1966, is as follows:

	December 1966	November 1966	October 1966	September 1966
Jamaica, New York Office:				
1 month.....	2	3	3	1
2 months.....	1	1	0	0
Over 2 months.....	2	2	2	2
Total.....	5	6	5	3
Percentage.....	9.3	16.7	17.2	10.7
Portfolio.....	54	36	29	28
Bayamon, Puerto Rico Office:				
1 month.....	23	14	14	5
2 months.....	1	2	1	0
Over 2 months.....	1	0	0	0
Total.....	25	16	15	5
Percentage.....	22.3	17.6	20.5	29.4
Portfolio.....	112	91	73	17

SERVICER'S POLICY ON LATE CHARGES

The Servicer collects late charges on installments received after the 15th of the month. Late charges are handled in accordance with FNMA requirements except as shown by Finding No. 6.

SERVICER'S FIDELITY COVERAGE

The Servicer's fidelity coverage of \$50,000.00 meets FNMA requirements. Errors and omissions coverage in the amount of \$25,000.00 is also carried.

FEES COLLECTED FROM MORTGAGORS

The Servicer collects no fees.

SERVICER'S OPINION ON MORTGAGE MARKET

The Servicer sent a letter dated January 11, 1967.

CLEARING AND CUSTODIAL ACCOUNTS

All clearing and custodial bank accounts are in banks insured by the Federal Deposit Insurance Corporation.

Audit Performed by *Frank G. Lawton, Jr.*

EXHIBIT 5

FNMA Documents Relating to the Jacksonville National Bank

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
April 12, 1972.

Memorandum

To. Mr. Arthur W. Miller, regional director, Internal Audit Division.

From. Manager, Home Loans.

Subject. Audit of Transfer of Servicing from United Institutional Servicing Corp., New York, N.Y., to Jacksonville National Bank, Jacksonville, Fla.

On April 5, 1972 personnel from the Jacksonville National Bank visited this office to discuss the overall servicing activities during the past year which covered the period from their assumption of the servicing portfolios of United Institutional Servicing Corporation and Springfield Equities Limited. Among other items discussed at the conference, the topic of the audit of the transfer of servicing from United Institutional Servicing Corporation to the Jacksonville National Bank was covered. For your reference, I am attaching their reply to our audit letter of February 4, 1972. I am currently making a review of their answer and have not yet formulated any comments.

As some of these items are practically cleared to within a minimum dollar amount, Jacksonville National Bank has requested that FNMA accept such clearances at less than 100%. The reason for this request is a practical one, as any further clearance will be time consuming and costly beyond that which can be justified for the amount involved. We bring this to your attention only because you will be receiving a letter relative to this request in the very near future.

NORBERT C. GREENE.

JACKSONVILLE NATIONAL BANK,
Jacksonville, Fla., April 4, 1972.

Re Audit of Transfer of Servicing from United Institutional Servicing Corp., New York, N.Y. to Jacksonville National Bank Jacksonville, Fla.

MR. KENNETH A. DUNCAN,
*Regional Vice President,
Federal National Mortgage Association, Philadelphia, Pa.*

DEAR MR. DUNCAN: Attached is an up-dated report of actions taken on items on above referenced audit. Reports will be forwarded to you as balance of items are cleared.

Very truly yours,

C. H. BEASON,
Vice President, Loan Administration.

Enclosures.

FINDING NO. 1

Servicer's records not in agreement with FNMA principal trial balance at date of transfer.

Item 1.—1-31-800335-2 has been reinstated on FNMA AES, and 1-31-800422-7 removed. This was checked by our records and reported to Mr. Middleton of your Washington office.

1-31-800422-7 not added to our records.

1-31-801259-7 removed from our records as of September 25, 1971.

Item 2.—All items cleared except following accounts. These accounts had corrections reported on March 25, 1972 AES report.

1-31-296235-0.

1-31-505863-1.

1-31-506683-4.

1-31-710917-3.

Item 3.—This item cleared as per explanation Item 1 and enclosure.

Item 4.—Items cleared with exception of the following accounts.

1-31-301575-2 and 1-31-806080-5.

These corrections were submitted with March 25, 1972 AES report.

The following loans will be corrected and up-dated when stop code is removed from AES records.

1-31-303228-1.

1-31-701130-2.

1-31-702647-1.

1-31-804295-6.

NOTE.—A trial balance on magnetic tape has been requested from your Washington office, a computer program written to compare all FNMA and GNMA records to records maintained by JNB. All of the differences reflected will be reconciled. This will aid in the shortage/surplus reconciliation.

FINDING NO. 2

Servicer's record not in agreement with GNMA principal trial balance at date of transfer.

Item 1.—This loan to be removed on March billing per conversation with Mr. Middleton on March 21, 1972.

All other items on Finding 2 cleared.

NOTE.—See note on Finding No. 1.

FINDING NO. 3

1-31-509681-5 (213959)—Brynildsen—This account is current. The \$18.20 late charge was deposited to the mortgagor's escrow account on November 16, 1971.

United Institutional Servicing Corporation remitted \$266.20 on December 2, 1971. This paid all legal fees in connection with the foreclosure.

FINDINGS NO'S. 4; 5; 6; AND 7

These items will be confirmed by the certified public accountant when corrections have been completed.

FINDING NO. 8

Unpaid taxes at date of transfer.

The tax search being conducted by O'Flynn and Verity has not been completed at this date. Upon receipt of tax search, information will be forwarded to you.

FINDING NO'S. 9 AND 10

These items have been cleared.

FINDING NO. 11

Hazard Insurance not found and duplicate coverage obtained.

Approximately 85 percent of the individual policies now name FNMA or Jacksonville National Bank as mortgagee. As each policy is renewed, the lost payee clause will be amended to properly name FNMA or JNB as first lienor.

FINDING NO. 12

Material shortages in mortgagors deposit account balance.

An analysis of each account is still being performed. You will be advised when completed.

FINDING NO. 13

Checks drawn by United that have been outstanding for an extended period of time at April 23, 1971.

Check number 6393 for loan numbers 1-31-710553-1 (215434) and 1-31-710103-0 (215418) has been distributed as follows:

1-31-710553-1; \$124.00 deposited to escrow.

1-31-710103-0; \$104.00 deposited to escrow.

7-31069406-8; Check number 2274, check dated May 4, 1970 amount \$57.00 deposited to escrow on March 16, 1972.

7-31-070291; Check number 2385 dated June 1, 1970 in the amount of

\$111.88 sent to GNMA on October 29, 1971.

All other items of Finding No. 13 cleared.

FINDING NO. 14

Hazard Insurance Loss Drafts not properly handled.

This is still incomplete. Will advise at completion.

FINDING NO. 15

Item 2.—Late charges of \$37.97 collected Febraury 23, 1971 will be posted as a non-monetary item to ledger. This to be treated as a journal entry only.

Item 3.—A letter has been sent to United requesting the \$211.00 that should have been credited to payment of February 2, 1971 installment.

Item 4.—On receipt of a \$211.00 from United, this will be deposited to escrow to offset the reversing of the application of one installment from escrow which took place on March 17, 1971. This, in turn, will clear up Item 4.

FINDINGS NO'S. 16 THROUGH 20

Cleared.

FEBRUARY 4, 1972.

Re Audit of Transfer of Servicing.

From: United Institutional Servicing Corp., New York, N.Y.

To: Jacksonville National Bank, Jacksonville, Fla.

Mr. CHARLES H. BEASON,

*Vice President, Jacksonville National Bank,
Jacksonville, Fla.*

DEAR MR. BEASON: In accordance with your reply to our August 23, 1971 audit of the transfer of the above servicing portfolio to your organization, and your confirmation of the corrective measures taken or to be taken with regard to the findings made, we shall list the Finding number and status of each as determined by FNMA. Those items that remain open will require further advice or certification by you when they have cleared.

FINDING NO. 1

Item 1.—Loan #1-31-800335-2 and #1-31-801259-7 must yet be removed from your records.

Item 2.—Advise when cleared.

Item 3.—Make a determination as to which loan number is correct and provide for correction. Advise when cleared.

Item 4.—Not cleared.

Item 5.—Cleared.

FINDING NO. 2

Item 1.—Provide confirmation when correction has been completed.

Item 2.—Cleared.

Item 3.—Cleared.

Item 4.—Cleared.

FINDING NO. 3

Has mortgagor (Brynildsen) paid the June 1, 1970 installment?
 Has the \$18.20 late charge been deposited to the mortgagor's escrow account?
 Has United Institutional Servicing Corp. paid legal fees in connection with the foreclosure?

FINDING NO. 4

Confirmation to be provided by certified Public Accountant when correction has been completed.

FINDING NO. 5

Confirmation to be provided by certified Public Accountant when correction has been completed.

FINDING NO. 6

Confirmation to be provided by certified Public Accountant when correction has been completed.

FINDING NO. 7

Confirmation to be provided by certified Public Accountant when correction has been completed.

FINDING NO. 8

Provide us with assurance that all taxes have been paid.

FINDING NO. 9

Cleared.

FINDING NO. 10

Cleared.

FINDING NO. 11

Please provide information as to whether or not all individual policies now named FNMA or Jacksonville National Bank as mortgagee.

FINDING NO. 12

Please advise when completed.

FINDING NO. 13

Has the \$228.00 been properly distributed to loan #215434 and #215418? Please reply concerning Exhibit A-4, outstanding GNMA checks totaling \$168.88.

FINDING NO. 14

Incomplete. Advise at completion.

FINDING NO. 15

Items Nos. 2; 3; and 4 are not cleared.

FINDINGS 16 THROUGH 20

Cleared.

Sincerely yours,

K. A. DUNCAN.

JACKSONVILLE NATIONAL BANK,
 Jacksonville, Fla., December 1, 1971.

MR. KENNETH A. DUNCAN,
 Regional Vice President, Federal National Mortgage Association,
 Philadelphia, Pa.

DEAR MR. DUNCAN: We have your letter of November 29, 1971, and we are indeed sorry for our delay in forwarding the detailed schedule to you.

Attached are our schedules and the supporting ledgers, outlining the corrections to the findings of the United Institutional Servicing Corporation and Springfield Equities, Ltd. audit made by Federal National Mortgage Association.

Very truly yours,

C. H. BEASON,
 Vice President, Loan Administration.

Enclosures.

FINDING NO. 1

Servicer's records not in agreement with FNMA principal trial balance at date of transfer.

Item 1.

1-31-284322-2; 19, 713. 89
 1-31-506679-3; 17, 513. 40
 1-31-507085-9; 14, 178. 29
 1-31-515098-4; 16, 749. 12
 1-31-520949-8; 20, 184. 85

The above loans have been removed from J. N. B. records.

1-31-800335-2 and 1-31-801259-7, these two are still carried on J. N. B. records.

Item 2.—The fifteen items are being corrected. Will probably take two months. Will notify when corrected.

Phase II data submitted to FNMA by U.I.S.C. has been received. This will enable us to correct this discrepancy.

Item 3.—This involves loan #1-31-800335-2 and #1-31-800422-7. Loan accounting division notified of mixup in the loan numbers.

FINDING NO. 2

Servicer's record not in agreement with GNMA principal trial balance at date of transfer.

Item I.—Contacted Mr. Lopez of FNMA's Washington office. He is in process of researching to determine why account was not removed, per phone contact with Washington 4/27/71.

Item II.—7-31063378-9 (211109) Processed, see attached ledger. AES Trial reflects LPI 8/71, JNB records reflect 8/71.

Item III.—7-31071545-8 (211498) Processed see attached ledger. AES Trial reflects LPI 12/70, JNB records reflect 12/70.

Item IV.—No further action recommended.

FINDING NO. 3

Mortgage installments credited to wrong account.

1-31-509681-5 (213959), Brynildsen.

1-31-509684-1 (213962), Jones.

All payments misapplied to account #1-31-509684-1 reversed and applied to account No. 1-31-509681-5. See attached ledgers.

\$18.20 late charge fee is to be deposited to escrow account of loan No. 1-31-509681-5.

Brynildsen's check No. 190 for \$232.00 dated 6-1-70 has not been charged to his account. This was determined by mortgagors bank statements.

Letter has been written to United requesting legal fees and costs incurred. Reply received from United indicating back up information required.

FINDINGS NO. 4

Mortgagor's payments not applied or applied to wrong account.

Following actions taken:

(1) 1-31-506703-4 (213648) A letter is to be written.

(2) 1-31-288602-5 (212370) \$58.00 to be drawn from mortgagor's escrow on 11/15/71 and held in trust for United.

(3) 1-31-508928-8 (213913) (Winslow) Check for \$357.54 was applied, with other payments to bring account current, on 4/14/71. This consists of two payments of \$177.00 each and late charge of \$3.54. See attached ledgers.

(4) 1-31-507589-7 (213574) (Nader) Check for \$305.00 from United applied on 4/21/71 for 3/71 payment.

(5) 1-31-505863-1 (213573) (Lee) The two checks in amount of \$243.00 each were applied on 4/14/71 as the 12/70 and 1/71 payments.

The principal curtailment was reversed and applied as the 3/71 payment. See attached ledgers.

(6) 1-31-511669-1 (214126) (Wiggins) On 7/2/71 one payment was reversed from this account, and a check written payable to United.

(7) 1-31-501552 No further proof was submitted by United. No action was taken.

The public accounting firm of Peat, Marwick, Mitchell & Company, Jacksonville, Florida has been retained. Confirmations have been sent to mortgagors. Information as to outcome will be forthcoming from their firm.

FINDING NO. 5

N.S.F. checks on hand that have not been reversed and N.S.F. checks not handled properly.

Ledgers attached and noted as to action taken.

Action taken on eight cases noted in Section 1.

(a) 7-31-061634-1 (211002) This check was deleted from United listing.

(b) 1-31-501069-1 (213178) \$168.00—Reversed payment and redeposited funds to escrow.

(c) 1-31-806527-1 (216777) \$370.00—This item was reversed by United from escrow. A payment was reversed by J.N.B. on 4/17/71. A deposit of \$370.00 was made to escrow on 10/5/71 to reimburse account for overcharge.

(d) 7-31-062675-0 (211065) \$158.08—This N.S.F. check was reversed by UISC on 2/71 and again by J.N.B. on 3/17/71. Funds have been allocated to reimburse this account. As account is in process of foreclosure these funds are being held pending claim.

(e) 7-31-069502-4 (211409) \$181.00—Item was reversed by United on 2/25/71 from escrow. A payment was reversed by J.N.B. on 3/29/71. A deposit of \$180.00 was made to escrow on 10/12/71 to reimburse account for overcharge.

(f) 7-31-066516-0 (211273) \$180.00—Reversed payment and redeposited funds to escrow.

(g) 1-31-287674-5 (212329) \$266.00—N.S.F. check reversed by United on 2/71, and again by J.N.B. on 3/22/71. Funds have been allocated to reimburse this account. As account is in process of foreclosure, these funds are being held pending claim.

(h) 1-31-284331-0 (212236) \$188.00—N.S.F. check reversed by United on 2/71 and again by J.N.B. on 3/22/71. Payment was made to reimburse account for overcharge on 10/5/71.

SECTION 2, EXHIBIT A-2

(a) On following loans, one payment was reversed and funds redeposited to escrow.

(1)	1-31-503577-0	(213387)	287.00
(2)	1-31-507303-3	(213716)	221.00
(3)	1-31-509198-2	(213923)	188.00
(4)	1-31-806899-8	(216879)	274.00
(5)	1-31-807032-9	(216899)	334.00
(6)	1-31-806253-0	(216736)	278.00
(7)	1-31-806909-5	(216883)	214.00

(b) The following loans were handled as noted in Section 1.

(1)	1-31-501069-1	(213178)	168.00
(2)	1-31-806527-1	(216777)	370.00
(3)	7-31-061634-1	(211002)	171.36
(4)	7-31-066516-0	(211273)	180.00
(5)	7-31-069502-4	(211409)	180.00

(c) The following loans are in process of foreclosure and will be reconciled in claim.

(1)	1-31-501669-5	(213223)	164.22
(2)	1-31-526157-5	(214922)	158.00

(d) Following loans had N.S.F. checks applied to unapplied funds. The reversals were from escrow. No action taken.

(1)	1-31-525403-9	(214879)	110.00
(2)	1-31-803664-6	(216225)	101.00

(e) 1-31-520741-4 (214653) \$100.00—No action taken on this item. The monthly payment amount is \$205.00 of which \$56.60 is escrow. Could not determine how or when items was applied.

SECTION 3

(1) 1-31-285340-6 (212254) \$.24; a check request for \$.24 has been prepared to reduce the funds in reversal account held in trust for United.

(2) 1-31-507575-6 (213740) \$410.00; a reversal has been prepared to be processed prior to 11/25/71. These funds will be deposited to reversal account held in trust for United.

SECTION 4

(1) 1-31-506372-7. Paid in full prior to transfer.

SECTION 5

These funds are being held in trust for United.

- (1) 1-31-713333-2 (215548) \$246.00; reversed on 4/16/71.
 (2) 1-31-716354-5 (215628) \$213.18; reversed on 4/16/71.

SECTION 6:

1-31-503802-1 (213394) \$708.00.

(A) Four payments were applied on 12/10/70, total of \$958.16.

(B) United reversed three payments on 1/71 totaling \$708.00.

(C) Springfield Equities Ltd. reversed four payments on 3/1/71 totaling \$958.16.

This for same N.S.F. check.

Funds were allocated on 10/12/71 to reimburse this account. As account is in process of foreclosure, these funds are being held pending claim.

SECTION 7:

7-31-061636-5 (211004) \$191.00.

Two reversals were processed on 3/18/71. One accepted and the other rejected.

J.N.B. reversed one payment on 7/12/71 in the amount of \$191.00. Funds held in trust for United.

SECTION 8:

1-31-526370-5 (214938) \$442.00.

Two reversals were processed on 4/1/71. Only one should have been reversed.

Funds for one reversal have been redeposited to account.

SECTION 9:

1-31-244186-3 (211628) \$165.00.

Reversed payment in question on 10/12/71 in the amount of \$165.00. These funds are being held in trust for United.

SECTION 10:

1-31-260253-4 (211821) \$179.00.

Reversed payment in question on 6/8/71 in the amount of \$179.00. These funds are being held in trust for United.

SECTION 11:

1-31-716354-5 (215628).

No action has been taken to this date. A schedule will be prepared and the necessary adjustment made to principal and interest.

SUGGEST ACTIONS SECTION

(I) Review of N.S.F. Schedule. See attached schedule, 'A'.

(II) See item (I) above.

(III) See notes on the various Finding, sections, 1 thru 5.

(IV) See notes on Section 6, 8, 11.

(V) See notes on Section 7, 9, 10.

(VI) These funds are being held in trust pending completion of audit by C.P.A. Firm.

FINDING NO. 6

Inadequate records maintained concerning escrow advances made by United and advances received from FNMA.

Action taken

Letters have been written to FNMA Regional Office, Philadelphia, Pennsylvania and to United requesting subsidiary ledgers and listing of advances.

The C.P.A. Firm contracted by J.N.B. is doing a detail audit on all advances made.

FINDING NO. 7

Tax payments erroneously charged to mortgagor.

Action taken

(1) 1-31-516715-7 (214443)—No action has been taken to date on this item.
 (2) 7-31-070287-7 (211449)—A refund was requested from Bureau of City Collections, Brooklyn, New York, on November 3, 1971. The request was for the following items:

- (1) 1968-69; 1st ½ city tax; 144.87.
- (2) 1970; water & sewer; 76.00.
- (3) 1970-71; city tax for all 4 quarters; 324.64.

On all other items listed, requests were sent to United for copies of checks which were used to pay the tax bills, and for the receipted tax bills. When these items are received, the balance of funds will be requested.

(3) 7-31-070284-1 (211447)—A request for verification of double payment was sent to Mark Pedisich, Receiver of taxes, Town of Brookhaven. He indicated a duplicate payment of taxes would not be made and if one was received, the check would be returned to sender.

A request is to be written to United requesting these funds for the overpayment. On the following loans, there has been no action taken to date.

- (1) 1-31-519322-2 (214595)
- (2) 1-31-524196-5 (214854)
- (3) 1-31-515097-2 (214352)
- (4) 1-31-511669-1 (214126)
- (5) 1-31-301884-5 (212821)
- (6) 1-31-519008-7 (214579)
- (7) 1-31-231702-4 (211550)

FINDING NO. 8

Unpaid taxes at date of transfer.

Action taken

All open items reflected on the tax search made by O'Flynn and Verity were researched as to payments made subsequent to search. On those items which were indicated as still open, a delinquent tax bill was requested and said bills paid.

Each loan is being reviewed for validity of tax payments by a special audit team.

A complete tax search will again be conducted by O'Flynn & Verity on or about 2/72 to verify the payment of all tax items.

FINDING NO. 9

Tax receipts not filed and not afforded adequate fire protection.

Action taken

All receipted tax bills received from United and subsequent items received by J.N.B. have been filed in numeric sequence and are held in a secure place.

FINDING NO. 10

Delays in applying unapplied funds.

Action taken

The unapplied funds have been reviewed and action taken either to apply a payment if adequate funds available or, mortgagor notified requesting the necessary funds to make a payment.

FINDING NO. 11

Hazard Insurance not found and duplicate coverage obtained.

Action taken

A trial balance was run on all loans to insure each had fire protection. If duplicate coverage indicated, one policy was cancelled.

An expiration date control file was set up.

The mortgagee clause on policies written by the Insurance Pool was a blanket item which was approved by FNMA. As each policy is renewed, the clause will be amended to properly name FNMA or JNB as first lienor.

FINDING NO. 12

Material shortages in mortgagors deposit account balance.

Action taken

An analysis of each account is being performed. Approximately 25% have been completed. The monthly payment is being adjusted accordingly. Shortages are being billed to mortgagor and in some cases prorated over a period of one year where shortage is excessive.

FINDING NO. 13

Checks drawn by United that had been outstanding for an extended period of time at April 23, 1971.

Action taken

Check No.	Loan No.	Amount	Action taken	Date
4463.....	302843-6.....	\$3.00	Applied to escrow.....	Nov. 15, 1971
5879.....	701820-7.....	81.00	do.....	Do.
5889.....	304408-8.....	110.00	do.....	Do.
6677.....	501006-7.....	52.00	do.....	Do.
6743.....	508683-4.....	140.00	do.....	Do.
6776.....	702743-0.....	9.00	do.....	Do.
6980.....	521479-2.....	82.00	do.....	Do.
10761.....	704108-4.....	5.00	do.....	Do.
11349.....	703733-2.....	209.00	do.....	Do.
11956.....	703733-2.....	209.00	do.....	Do.
11874.....	301884-5.....	80.00	do.....	Do.
11874.....	807380-2.....	118.06	do.....	Do.
12035.....	506372.....	55.69	Check requested Nov. 15, 1971 to FNMA.	
7070.....	243718.....	.48	do.....	
6393.....	215434, 215418.....	228.00	Will call Mr. Levine of UISC to see how much goes to each account.	
12052.....		286.76	Cleared.....	
12056.....		87.50	do.....	
Total.....		1,756.49		

FINDING NO. 14

Hazard Insurance Loss Drafts not properly handled.

Action taken

Loan No.	Amount	Action taken
290747.....	3,465.00	Sent to FNMA—Check No. 4712 dated July 28, 1971.
505866.....	6,959.34	
276588.....	10,935.00	Transfer to R/S, October 8, 1971.
278954.....	3,496.05	
522688.....	14,114.24	Do.
293889.....	7,950.00	
303660.....	2,050.00	\$13,776.85 transfer to R/S, October 8, 1971.
516728.....	10,812.13	
508224.....	10,040.92	
505036.....	9,112.21	
517138.....	15,366.60	
525799.....	1,336.87	
526074.....	16,485.55	
302011.....	4,428.79	
513174.....	10,530.00	
527148.....	4,584.23	
514509.....	7,999.95	
502668.....	4,608.68	
500589.....	10,083.17	
500542.....	3,557.15	
288775.....	7,832.49	
Total.....	165,750.37	
258171 (not listed).....	11,023.57	

FINDING NO. 15

Disbursement of \$2,147.98 made prior to 2/25/71 but not charged to mortgagor at 4/23/71.

Action taken

Funds in amount of \$2,147.98 were withdrawn from escrow account and deposited to principal and interest on 9/23/71.

FINDING NO. 16

Mortgagor prepaid 28 months ahead.

Action taken

A letter was written informing mortgagor of this fact and that he could have these prepayments posted to curtailments. No answer was received to this date. See attached letter. Exhibit 'B'

FINDING NO. 17

Signed duplicates of mortgages and mortgage bonds in servicer's file. The files were micro-filmed and at this time the duplicate copies were pulled.

JACKSONVILLE NATIONAL BANK,
Jacksonville, Fla., November 3, 1971.

Re Audit—United Institutional Servicing Corporation and Springfield Equities.

MR. K. A. DUNCAN,
Federal National Mortgage Association,
Philadelphia, Pa.

DEAR MR. DUNCAN: We wrote you recently advising that we would forward schedules outlining our corrections in connection with the audit finding of United Institutional and Springfield Equities. I believe we promised these schedules in two weeks but unfortunately the schedules are as of this moment incomplete. We are working on them diligently and I anticipate that they will be complete by the last of this week or certainly by the first of next and we will immediately send them to you.

All told, things are looking better in respect to our controls and I note many other day to day improvements. I appreciate your bearing with us during this very difficult period and I assure you that we are doing everything possible to get the schedule and the necessary corrections made.

Very truly yours,

C. H. BEASON,
Vice President, Loan Administration.

P.S. Since dictating the above letter I have received your letter dated November 1, 1971 in this regard.

JACKSONVILLE NATIONAL BANK,
THE CHARTER COMPANY,
Jacksonville, Fla., October 15, 1971.

Re audit.

MR. K. A. DUNCAN,
Federal National Mortgage Association,
Philadelphia, Pa.

DEAR MR. DUNCAN: First of all, I apologize very sincerely for not replying sooner to the September 1, 1971 audit findings in connection with the transfer of servicing from United Institutional Servicing Corporation and Springfield Equities to Jacksonville National Bank. Time surely does pass fast these days and it seems that Friday is here before I am ready for last Monday's end, especially when so many things require immediate attention in order to resolve the daily problems.

As I have informed you, we have engaged our internal auditors to audit the acquired portfolios of United Institutional Servicing Corporation and Springfield Equities. They have entered into the confirmation stage of the audit and are actively resolving the differences. We have also added a staff of servicing people for the auditors disposal and they are assisting the certified public accountants firm in conducting the audit. I did delay somewhat, since I feel United Institutional should bear the brunt of expenses on this audit. It did take some time to schedule and project the cost of the audit, and we have presented this information to Mr. Katz, who has agreed to bear the expense. I frankly feel this is a reasonable cost to them to clear these findings.

Our overall servicing organization is busily resolving a large percentage of errors found. This is being handled by our accounting, collections, insurance, foreclosure and general servicing departments in everyday routine servicing

functions. As an example, we have brought to light through our collections department in excess of 150 misapplications. Our insurance department has checked each file to determine that adequate insurance coverage is in full force and effect. Our tax department is in process of clearing all items and are more than 80% completed. The biggest problem is finding the tax bills and receipts and getting them into numerical sequence. Analysis of escrow accounts begun about thirty days ago on all loans having advances made due to escrow deficiencies, and we are billing the mortgagors in each instance. I am still not satisfied with our collections and again it was due to the large volume and the necessity of education of the mortgagors as to where, how and why the payments should be made in the proper manner. For an example, we returned in September over 250 payments where one months payment was paid when two were due, and in 98% of these cases, the mortgagors knew and were following their past payment pattern.

Each item of the audit for United Institutional and Springfield Equities has been cleared or is in process of being cleared. Within the next two weeks we will forward detailed information regarding the clearings. Following exactly the numerical sequence of the audit's exceptions, listed below is a rough status of each finding:

1. 90% completed.
2. 98% completed.
3. Totally cleared.
4. In different stages of process. In dividual cases 70% completed. Confirmation n process.—*CPA firm.*
5. 50% completed.
6. Being handled by the *CPA firm.*
6. Being handled by the *CPA firm.*
7. Handled by the *CPA firm.*
8. 95% complete.
9. Cleared.
10. 85% completed.
11. Cleared.
12. In process.
13. Cleared.
14. 85% cleared.
15. Cleared with the exception of posting \$37.98 late charge and obtaining \$211.00 from United Institutional.
16. Cleared.
17. Cleared.
18. Cleared.
19. Cleared.
20. Completed through transfer period. We do have some accounts several months in arrears without attorneys referral, due to various problems.

Springfield Equities is about the same as United Institutional with the difference being in the volume of loans serviced. There were fewer findings and below is a rough detail of our progress on those:

1. In process by *Certified Public Accountants.*
2. In process of analyzing and expect another six months to complete the analysis.
3. Cleared.
4. Cleared.
5. Cleared.
6. Cleared.

Mr. Duncan, in connection with the audit, the largest problem is the amount of outstanding advances and the lack of detailed records pertaining thereto. We of course have access to Springfield Equities back records and Mr. Katz has agreed to cooperate in allowing us to use his records, however we would like for Federal National Mortgage Association to give us from their Northeast Regional Office, a complete listing of outstanding advances owed FNMA and GNMA as of February 28, 1971. If possible, both for United Institutional and Springfield Equities. This listing should be by FNMA number, give the amount of advance, mortgagor's name and if possible, the former servicing companies loan number and a legend of the code indicating the purposes of the advances.

I will keep you advised, and as I stated earlier you will have a more detailed report within the next two weeks.

Very truly yours,

C. H. BEASON,
Vice President, Loan Administration.

(Via air mail)

DECEMBER 29, 1970.

Mr. C.H. BEASON,
*Vice President, Jacksonville National Bank,
Jacksonville, Fla.*

DEAR MR. BEASON: We have received photocopies of the forms and Selling and Servicing Agreements which you entered into with our Atlanta office on March 28, 1966. This is to advise that we approve your Bank as an eligible Seller/Servicer with this office under FNMA and GNMA, and you are now qualified to sell us and service for us FHA and VA mortgages. It is our understanding that Springfield Equities, Ltd. will serve as your agent in New York, however, all accounting reports, correspondence, etc. will emanate from your main office in Jacksonville, and we will forward any stock which you may purchase to this office as well. We understand you are withdrawing your request for approval by us of Acorn Mortgage Company.

The Seller/Servicer Code Number which has been assigned to you for this office is 974, which number should be used for all reports, remittances and correspondence with us, as well as the 9-digit Seller/Servicer Number (10544-000-6).

Please complete arrangements for opening the FNMA/GNMA custodial accounts. The enclosed Forms 37, Letter Agreement for Servicer's Custodial Account, must be utilized for this purpose. These accounts should be opened promptly and the originals returned for our records.

We sincerely hope you will avail yourselves of the facilities offered to you by our office.

Sincerely yours,

PHILIP J. LYNCH,
Assistant Regional Vice President.

P.S. Since it has apparently been some time since your Bank filed Forms 11a (Resolution of Directors) with us, we request that you complete the enclosed forms and return the original to us.

P.J.L.

EXHIBIT 6

FNMA Documents relating to Springfield Equities Ltd.

REV. 9-5-70

SELLER/SERVICER QUESTIONNAIRE

To: FEDERAL NATIONAL MORTGAGE ASSOCIATION
211 South Broad Street
Philadelphia, Pa. 19107

Date: April 10, 1970

FIRM NAME, ADDRESS and ZIP CODE:
SPRINGFIELD EQUITIES LTD.
86-22 161st Street
Jamaica, New York 11432

Phone Number: 212-297-6830
Seller/Servicer Code No: 674

Area of Operations: N.Y.C. Nassau County, Suffolk, Upstate, NY

Branch Offices and Addresses:

Office Manager:

NONE

Name and Titles of Principal Officers: SANFORD ALLINSON PRESIDENT
LOUIS I. LERNER VICE PRESIDENT
STEPHEN ROSENTHAL SECRETARY-TREASURER

Servicing Supervisor (Name and Title): Person to Contact on Delinquencies:
Nicasio P. Corsello Mortgage Officer Nicasio P. Corsello

Person to Contact on Insurance: Person to Contact on Accounting Reports:
Lillian Fisher (Mrs.) Irma Horovitz (Mrs.)

Number of Field Men: 2 Full Time: Part Time: X

Do you service loans for any other FNMA office? No Name Region and No. of Loans:

Name and addresses of other investors whom you represent, and the approximate number of mortgages serviced for each (Attach list if you prefer): Dime Savings Bank of Williamstburgh
Polish National Alliance of Brooklyn
(list attached)

CUSTODIAL AGREEMENTS FNMA GNMA

Name and Address of Bank: Valley National Bank

Highest Dollar Balance last year: \$ 118857.48 \$ 1194.52
Date of Highest Balance: 12/18/69 12/17/69

Type and Amount of Fidelity Insurance:
Individual \$ 75000.00 Blanket \$ Direct Surety \$
Deductible \$ Cancellation Clause to Notify FNMA: ☐ Yes ☒ No

Name and Address of Carrier: Lloyds of London
c/o Wohlsch & Anderson Ltd.
55 John Street, New York, N.Y. 10038

Specify Officers or Employees Excluded from Fidelity Coverage:
NONE

Do you carry Errors and Omissions Insurance? Yes Amount \$ 110250.00

Furnish a copy of your latest audit report or a copy of last financial statement, certified by a Certified Public Accountant or Public Accountant. If you are a state or federally supervised bank or savings and loan association, a printed copy of latest published financial statement is acceptable. Date filed year ends: 7/31

Are advance notices of mortgage installment payments due mailed to mortgagors? Yes
If so, how many days in advance is the notice sent? 10

What day of the month do you mail notice of delinquency to mortgagors?

First Notice Tenth Second Notice Sixteenth Third Notice

What day of delinquency do you have personal contact (not by telephone) with your mortgagors regarding delinquencies? Eighteenth

If you service FNMA owned mortgages on property consisting of ten or more living units owned by a mortgagor, complete the following section:

Name of Mortgagor	Location of Property	Section of Act	No. of Units	No. of Living Units
-------------------	----------------------	----------------	--------------	---------------------

NONE

4/7/70 212-297-6830 Mortgage Officer
DATE TELEPHONE NUMBER SIGNATURE TITLE



Springfield

EQUITIES LTD.

APPROVED MORTGAGEE FEDERAL HOUSING ADMINISTRATION

88-22 161ST STREET, JAMAICA, N. Y. 11432

AREA CODE (212) AXTEL 7-6200

INVESTOR

Dime Savings Bank of Williamsburgh	343
Northeastern Pennsylvania National Bank & Trust Co.	22
Geneva Savings Bank	45
Polish National Alliance of Brooklyn	34
Schenectady Savings Bank	39

FNMA Form 128
Rev. 2/11/66

14371-080-9

C

APPROVED FOR

☒ VA ☒ FHASELLER'S ☒ OR SERVICER'S ☒ RECORD

FOR YEARS 1966-1970

Name SPRINGFIELD EQUITIES, LTD. (674) Phone 212-297-6200
Address 150-05 Hillside Avenue, Jamaica, New York 11432
Area Served New York State
Branch Offices _____

Principal Officers Sanford Allison, Pres., Stephen Rosenbaum, Sec. Treas; Louis I. Lerner, Exec. Vice Pres, Dorothy G. Pelosi, Mortgage Officer

Servicing Supervisor Nicasio P. Corsello

No. Field Men 2 No. Other 3
Serv. Emps.

Other Investors Represented: Buffalo Sav. Bk - 60 loans; '68
Dime Savings Bk of Wmsbrg. - 361; Geneva Savings Bank - 48; Polish National
Alliance of Brooklyn - 483 '69

Highest Dollar Amount in Custodial Account: \$ '68 \$662576 F-\$118887.48
C-\$1194.52

Fidelity Insurance: ☒ Ind. ☐ Blanket ☐ Direct Surety \$ 100M \$ 150M \$ 75000

Financial Data:	Assets	Liabilities	Net Worth	Net Profit (Loss)
As At 5-20-65	159,600	9,600	150,000	
4-30-67	325,943	114,335	211,607	(3,720.06)
4-30-68	1,191,715	985,245	206,470	4,862
4-30-69	2,542,477.21	1,980,421.06	562,056.15	9,476.78
4-30-70	2,041,019	1,259,335	781,684.	3,857.

Handling of Delinquencies:

First Notice 10 Second Notice 16 Third Notice following month Personal Contacts 25th
Form 301 Signed 6/12/68 Inactive _____ Terminated _____
* Form 302 Signed 1/8/68 Inactive _____ Terminated _____
P&S Signed _____ Terminated _____

Triennial Inspection Certificates Rec'd: _____

Field Visits: _____ FNMA Audits Eff. 7/25/70

Remarks _____

Eff 4/25/68 - Transfer of Servicing to Manufacturers Hanover Trust Company
'68 FNMA Atlanta - 58 Loans

Probation Indefinite - Del % - Letter 4/11/69 (6/25/69) Bidding Privileges Sus. Indef

Atlanta - suspension of Bidding privileges - on probation

Miami Operation - 5/26/69 - Miami Oper. - Removal Letter - 7/23/69

*FNMA Letter 3/26/69 Exec.

Transfer of servicing to Manufacturers Hanover Trust Company
Atlanta - suspension of Bidding privileges - on probation
Miami Operation - 5/26/69 - Miami Oper. - Removal Letter - 7/23/69
*FNMA Letter 3/26/69 Exec.

FNMA Form 128
Rev. 2/11/66

14371-000-9

"C"

APPROVED FOR

☒ VA ☒ FHASELLER'S ☒ OR SERVICER'S ☒ RECORD

FOR YEARS 1971 -

Name SPRINGFIELD EQUITIES, LTD. (674) Phone 212-297-6830/1
Address 150-35 Hillside Avenue, Jamaica, New York 11432
Area Served New York State
Branch Offices _____

Principal Officers Sanford Allison, Pres., Stephen Rosenbaum, Sec. Treas; Louis I. Lerner, Exec. Vice Pres., Dorothy G. Pelosi, Mortgage Officer

Servicing Supervisor Nicasio P. Corsello

No. Field Men 2 No. Other Serv. Emps. 3

Other Investors Represented: Ruffalo Sav. Bk - 60 loans; '68
Dime Savings Bk of Wmsbrg. - 361; Geneva Savings Bank - 48; Polish National
Alliance of Brooklyn - 483 '69

Highest Dollar Amount in Custodial Account: F-2118,887.42
\$21,194.526 \$ _____ \$ _____

Fidelity Insurance: ☐ Ind. ☐ Blanket ☐ Direct Surety \$ _____ \$ _____ \$ _____

Financial Data:	Assets	Liabilities	Net Worth	Net Profit (Loss)
As At <u>4-30-70</u>	<u>2,041,019.</u>	<u>1,259,335.</u>	<u>781,684.</u>	<u>3,857.</u>
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

Handling of Delinquencies:

following month

First Notice	16	Second Notice	16	Third Notice	Personal Contacts	25th
Form 301 Signed	<u>6/14/66</u>	Inactive	_____	Terminated	_____	_____
Form 302 Signed	<u>1/8/68</u>	Inactive	_____	Terminated	<u>3/11/71</u>	_____
P&S Signed	_____	Terminated	_____	_____	_____	_____

Triennial Inspection Certificates Rec'd: _____

Field Visits: _____ FNMA Audits Eff. 7/25/70

Remarks Eff. 4/25/68 - Transfer of Servicing to Manufacturers Hanover Trust Co.
'68 FNMA Atlanta - 58 loans

Probation Indefinite - Del. % - Letter 4/11/69 (6/25/69 - Bidding Privileges Sus. Indef.)
Atlanta - suspension of bidding privileges - on probation

Miami Operation - 5/26/69 - Miami Oper. - Removal Letter - 7/23/69

* FNMA LETTER 3/26/69 Exec. _____

Transfer of Servicing to Jacksonville National Bank eff. 2/25/70 - Springfield
continues as an eligible Seller. 3/11/71 FNMA/SERVICING TERMINATED

Springfield - Cautious
 DELINQUE STATUS - COMBINED OF TIONS

"G"

	TOTAL MORTGAGES	IN FOUR- CLOSURE	DEL 1 MO	DEL 2 MO	DEL 3 MO & OVER	TOTAL DELIN	PERCENT DELIN	SERVICING NOTES
Jan. 19								
Feb.								
March								
April								
May								
June								
July								
Aug.								
Sept.								
Oct.								
Nov.								
Dec.								
Jan. 19								
Feb.	5						-	
March	11		3			3	27.3	10-24-68 - Visit to Office -
April	13		5	1		6	46.2	Mr. Bernstein, Miss Trezza & Mrs. Crar
May								Loans serviced by Manufacturers
June								Hanover - 5/68
July								
Aug.								
Sept.								
Oct.	2						-	Resumed Servicing 10/68
Nov.	16		1			1	6.3	
Dec.	18		3			3	16.7	
Jan. 19	24		2	3		5	20.8	2-3-69 Louis Lerner and Stephen
Feb.	26		8		2	10	38.5	Rosenbaum - Visit to Office (Serv. &
March	117		2	2	2	16	13.7	% as of 3/31/69 Fiscal Report
April	162		3	8	3	14	8.6	Critical Letter 5/29/69
May	192		21	9	7	37	19.3	5/22/69 - Visit - Louis Lerner
June	236		11	3	13	27	11.4	and Anne Roffe
July	281		16	3	12	29	10.3	EV 6/19/69 Unsatisfactory Bidding
Aug.	333		15	4	13	32	9.6	Bidding Privileges Suspended
Sept.	387	4	6	3	10	19	4.9	Indefinitely - REK - 6/25/69
Oct.	434	1	5	2	6	23	5.3	Visit to Office 7/22/69 - Mr. Lerner &
Nov.	462	10	1	4	5	18	3.9	9/12/69 - Continue Supervision
Dec.	576	12	17	3	5	24	4.2	9/11/69 - Visit - Mr. Lerner & Rosent
Jan. 19	578	13	17	4	4	27	4.7	
Feb.	606	15	20	4	7	31	5.1	EV 9-15-69 - Suspension & prolation
March	659	18	26	5	2	42	6.4	
April	712	23	28	6	3	47	6.6	Restore Selling Privileges
May	774	27	34	3	3	46	5.9	
June	813	27	36	6	5	53	6.5	4/11/70 - Del. Letter
July	861	31	24	16	2	57	6.6	EV - 9/14/70 - No recommendation
Aug.	887	34	37	6	2	71	7.9	Pending Audit Outcome
Sept.	887	36	37	8	2	71	7.9	
Oct.	912	33	21	12	3	59	6.5	Del. Letter 12/7/70
Nov.	923	32	34	7	10	61	6.6	
Dec.								

Servicer's Name Springfield Equities

DELINQUENCY STATUS - COMBINED OPERATIONS

"G"

	TOTAL MORTGAGES	IN FORE- CLOSURE	DEL. 1 MO.	DEL. 2 MO.	DEL. 3 MO. & OVER	TOTAL DELIN.	PERCENT DELIN.	SERVICING NOTES
Jan. 19 ⁰¹	3	3						
Feb.								
March								
April								
May								
June								
July								
Aug.								
Sept.								
Oct.								
Nov.								
Dec.								
Jan. 19								
Feb.								
March								
April								
May								
June								
July								
Aug.								
Sept.								
Oct.								
Nov.								
Dec.								
Jan. 19								
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March								
April								
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July								
Aug.								
Sept.								
Oct.								
Nov.								
Dec.								
Jan. 19								
Feb.								
March								
April								
May								
June								
July								
Aug.								
Sept.								
Oct.								
Nov.								
Dec.								

Servicer's Name Springfield Equities, Ltd.

OCTOBER 8, 1970.

Re Fidelity Bond Coverage.

Mr. NICASIO P. CORSELLO,
Mortgage Officer, *Springfield Equities, Ltd.*,
Jamaica, N.Y.

DEAR MR. CORSELLO: Reference is made to your letter dated September 18, 1970, requesting the right to have a \$300,000.00 Fidelity Bond with a \$500.00 deductible.

We wish to advise that your request has been approved and that provisions of Section 101 of the Servicers Guide are hereby waived.

Sincerely yours,

MICHAEL J. SWEENEY,
Loan Representative.

SPRINGFIELD EQUITIES LTD.,
Jamaica, N.Y., November 11, 1970.

Re F.N.M.A. Audit—September, 1970.

K. A. DUNCAN,
Regional Vice President, *Federal National Mortgage Association*,
Philadelphia, Pa.

DEAR MR. DUNCAN: In response to your letter of October 22, 1970, we herewith report the following adjustments to our present procedures and up-to-date reports as to specific cases which were questioned:

1. *Inaccurate Certifications that All Matured Mortgage Installments Had Been Paid By the Mortgagor*—All mortgages are now set up on computer on the date they close. Full statements are now available from the outset of the loan (as of October 1, 1970). No account may be submitted to F.N.M.A. until the payment reflected in the loan balance has been posted.

2. *Remittance Not Made Promptly*—Collections now made on a daily basis, as per F.N.M.A. requirements. (Started September 24, 1970)

3. *Tax Penalties Incurred and Charged to Mortgagors*—The initial group referred to by the auditors have received refunds totaling \$127.43. A study of all accounts is now in progress and further refunds will be made where necessary.

4. *Insurance Loss Settlements Not Handled Properly*—F.N.M.A. requirements stated in section 121 of the Servicer's Guide are now in strict force. Formal verification of continued F.H.A. insurance have been requested on F.N.M.A. numbers 31-305578, 31-515418 and 31-525082. Copies of replies will be forwarded to F.N.M.A.

5. *Late Charges Billed and Collected Several Months After Late Payments Were Accepted*—Late charges are removed if not collected by the date of receipt of the next billed installment. Example: Late charge assessed on the 15th, monthly payment received without late charge between 16th and 30th; letter to mortgagor goes out demanding remittance of amount due, etc. If next payment does not include late charge, it is returned or late charge is waived.

6. *Handling of Foreclosures Inadequate*—(a) Documents forwarded to field council within 24 hours of receipt from F.N.M.A.

(b) Field councils notified by certified letters to submit detailed monthly progress reports and to inform our office immediately when problems develop (see copies enclosed).

(c) Adherence by field council to item 6 (b) should enable Springfield Equities Ltd. to file F.H.A. 2068 on the proper date.

(d) Form 2068 is now filed on the date of the foreclosure sale. Please note, forms 1025, 2766 and 2767 are not supplied by F.H.A. in bulk quantities. We have contacted our local office in Hempstead, New York and were informed that they are only forwarded on receipt of F.H.A. form 2068. We are therefore, under these terms, unable to file these forms on the date the foreclosure sale is held. We will file these forms as soon as they are received from the F.H.A.

(e) Monthly property inspections are made and have been made prior to and during the tenure of all foreclosures. Dated, detailed inspection reports are now being recorded using F.N.M.A. form 30 (Property Inspection Report).

7. *Transaction Dates Not Shown Correctly on Mortgage Ledger Cards and Application of Unapplied Payments Not Shown on the Cards*—We have informed our I.B.M. servicer of these inadequacies and have been told that present processing

NOTE.—Clears all findings. However, follow-up should be maintained for advice as to completion of the review being made in accordance with Finding No. 3.

of the items in question are to be modified with the total revamping of their current programmed system. These adjustments should be in effect within the next twelve months. Follow up inquiries will be made to determine their progress in this area.

8. *Excess Escrow Funds Not Remitted to F.N.M.A.*—Starting September 25, 1970 excess funds remitted by Springfield Equities to F.N.M.A. as per requirements set forth in Servicer's Guide.

9. *Mortgagors Charged With Fees For Tax Searches*—As per F.N.M.A. instruction, tax search charges will be absorbed by Springfield Equities effective immediately.

Please be assured that we have alerted ourselves to these situations and recognize the need for our complete familiarity with all F.N.M.A. regulations.

All personnel have been made aware of these shortcomings and instructed as to proper procedures to prevent future recurrences.

Very truly yours,

NICASIO P. CORSELLO,
Mortgage Officer, Mortgage Servicing Division.

FEDERAL NATIONAL MORTGAGE ASSOCIATION
MEMORANDUM

OCTOBER 6, 1970.

To: Duncan, Regional Vice President—FNMA.

Attention: McCarron, Assistant Regional Vice President.

From: Miller, Regional Director, Examination and Audit—Philadelphia.

Subject: Springfield Equities Ltd., Jamaica, N.Y.

In a memorandum dated August 28, 1970, Mr. McCarron requested that in our audit for the captioned Servicer, we review its files concerning the fire loss on loan number 31-515418 (Kokason and Pack, 128-12 Gotham Road, Ozone Park, N.Y.) and investigate the matters referred to in a memorandum dated August 24, 1970 from Mr. Reed, Regional Counsel to Mr. Duncan.

From our review of the Servicer's records and discussions with Mr. Corsello, Mortgage Officer, we found that some of the information obtained by Mr. Reed from Inspector Adam Tatem, is at variance with information we obtained. These variances are as follows—(the quotations shown below are from Mr. Reed's memorandum):

(i) "The Servicer secured the property, a frame house, by boarding it up, said to have been at an excessive price." According to the Servicer's records, it received first notification of the loss on 1/2/70 and an inspection was made on 1/4/70. The Servicer's inspector, who charged no fee, found that the property had already been boarded up.

The mortgageor had arranged for an Insurance Adjustor, Chamlin & Spitzer, Inc. to handle the loss for them and the adjustors had the property boarded up, at a cost of \$300.00 to the mortgageors. (The Servicer stated that this charge seemed to be excessive, but the mortgageors had made the arrangements).

(ii) "The contractor is said to have been paid about \$7,000.00 for a botched job. The release of \$500.00 on May 15, 1970 . . . is said to have been made without authorization of the mortgageors, when they were dissatisfied." The Servicer obtained the mortgageor's authorization to release funds \$(8,465.00) to the contractor, except the last \$500.00, released on 5/17/70. At that time, the Servicer was holding \$1,000.00, and based on an inspection made by Robert Oxford, Appraiser, on 5/15/70, the Servicer released \$500.00 to the contractor on 5/17/70. The inspection showed only certain minor items to be completed but the Servicer withheld the remaining \$500.00 which was due the contractor.

The final \$500.00 was subsequently released to the mortgageors (\$280.00 on 6/8/70) and the Viking Aluminum Co. (\$220.00 on 7/8/70, approved by the mortgageors).

(iii) "The contractor did a poor job, and eventually abandoned it, uncompleted." The mortgageors, not the Servicer, arranged for the contractor to do the work. (We have a copy of the contract, signed by the mortgageor and the contractor).

According to memos that the contractor wrote (we have copies), the mortgageors moved back into the property prior to completion of the repair and interfered with the work.

(iv) "The place is uninhabitable." According to the inspection made on 5/15/70, the house was uninhabitable and the mortgageors were living there, with only minor repairs yet to be made.

(v) "The contractor did *not* obtain a building permit, according to Mr. Tatem." The memorandum from the contractor states that he had a building permit. Whether he did or not would not be the Servicer's responsibility since the contract was between the mortgagor and the contractor.

At 7/8/70, the entire proceeds from the insurance loss of \$10,850.00 had been disbursed. Also, the Servicer had disbursed \$40.00 to Robert Oxford, Appraiser, (from the mortgagor's escrow funds) for inspections of the property on 4/17/70 and 5/15/70.

The Servicer did not feel that it had anyone qualified to inspect the repairs and determine whether the property had been properly restored. It therefore obtained the services of an outside appraiser, to whom they disbursed \$20.00 for each inspection.

According to the Servicer's records, the disbursements of the above proceeds were made as follows:

Payee	Date	Amount	Remarks
Chamlin & Spitzer, Inc.....	Mar. 31, 1970	\$1,085	Adjusters fee.
		300	Boarding up property.
Rockaway Contractors.....	Apr. 1, 1970	3,465	Release authorized by mortgagors.
Do.....	Apr. 17, 1970	2,000	Do.
Robert Oxford.....	do.....	20	Fire inspection fee (from mortgagors' escrow funds).
Rockaway Contractors.....	Apr. 29, 1970	3,000	Release authorized by mortgagors.
Do.....	May 15, 1970	500	
Robert Oxford.....	do.....	20	Inspection fee (from mortgagors' escrow funds).
Lenora Kokason.....	June 8, 1970	280	Electrical service. Release authorized by mortgagors.
Viking Aluminum, Inc.....	July 8, 1970	220	Storm and screen windows to be installed by payee.
			Release authorized by mortgagors.
Total.....		10,890	

As shown in Finding No. 4 (of our audit report) which covers the above loss and two other cases, the Servicer has not been handling insurance loss settlements in accordance with Section 121 of the Servicers Guide. The Servicer's employees were unfamiliar with the FNMA instructions for handling and reporting insurance losses. (Copy of Finding No. 4 attached).

It is our understanding that the mortgagors are suing the contractor for non-performance under the contract and that the contractor is suing the mortgagors for non-payment of his bill, which included additional work, not affected by the fire loss.

ARTHUR W. MILLER.

4. Insurance Loss Settlements Not Handled Properly (Sec. 121 Servicers Guide)

We reviewed the Servicer's handling of three insurance loss settlements, in amounts of \$10,850.00 (Loan No. 31-515418), \$4,447.56 (Loan No. 31-305578), and \$3,950.00 (Loan No. 31-525082), and found the following deficiencies:

(i) The Servicer did not prepare and forward to FNMA a Form 176 (Report of Hazard Insurance Loss), or any other notification of the loss or recommendation concerning disposition of the loss proceeds. Also, the Servicer did not complete a FNMA Form 177 (Insurance Loss Settlement).

(ii) The Servicer's files do not show that authority for release of funds was received from the mortgagor in the following cases:

Loan No. and payee	Disbursements		
	Date	Amount	Purpose
31-515418: Chamlin & Spitzer, Inc.....	Mar. 31, 1970	\$1,385.00	Adjustor's fee—\$1,085; boarding property—\$300.
31-515418: Rockaway Contractors.....	May 15, 1970	500.00	Repairs.
31-305578: Perry Cohen Associates.....	May 7, 1970	555.93	Adjustor's fee (12¼ percent).
31-305578: Larry GiPeppo.....	do.....	53.00	Securement of property.
31-525082: (Various).....	(Various)	2,155.91	(Various).

(iii) The files do not contain copies of bills or receipts in support of disbursements to contractors or insure adjustors, or release of funds to mortgagors. (We examined the cancelled checks.)

(iv) The Servicer had not informed FHA of the restoration of the properties and had not obtained a statement from FHA that the mortgage insurance will continue in force.

(v) For one insurance loss (Loan No. 31-305578), the files do not show that the property was inspected after restoration to determine that the work had been completed in a satisfactory manner and the property restored to a condition as good as, or better than it was before the loss was sustained. (Mr. Corsello stated that the property had been inspected.)

The Servicer was unfamiliar with Section 121 of the Servicers Guide concerning the handling of insurance loss settlements. Mr. Corsello stated that for Loan No. 31-525082 the mortgagor generally came into the office and gave verbal approval for release of funds (item ii above).

(a) Mr. Corsello stated that the Servicer will contact FHA and obtain a statement that the mortgage insurance will continue in force for each of the three mortgages shown above. He also stated that from now on insurance loss settlements will be handled in accordance with Section 121 of the Servicers Guide.

AUGUST 6, 1970.

Reed—Regional Counsel.

Regional Vice President.

Hostile criminal action against one of our Servicers.

Inspector Tatem of the city of New York called to advise me that one of our properties that had been damaged by fire and which was being serviced by Springfield Equities had been repaired by a contractor who has been arrested for grand larceny and that Springfield Equities was under investigation for possible indictment on a conspiracy. The property on which the fire loss occurred is owned by Lenore Kokason and Eva Pack and is located at 128-12 Gotham Road, South Ozone Park in Queens County.

The FHA case number for the particular property is 373-132251 and Inspector Tatem said there was a further identification number of 8490-515418-F750H. It has been determined that this refers to FNMA Loan Number 515418, the file of which is attached.

The criminal indictment has a returnable date in the Queens County criminal court in November. Inspector Tatem requested that we not alert Springfield Equities relative to this matter but would appreciate our keeping him informed of any matters we may ascertain from our investigation of this case. Inspector Tatem's telephone number is 212-566-4795. Inspector Tatem also stated that Mr. Condon of the FHA Hempstead Office is thoroughly familiar with the case involved.

Inspector Tatem specifically mentioned that the fire loss proceeds from the insurance company were released by Springfield Equities without the approval of the property owner, that a \$20.00 inspection fee had been charged the property owner on at least two occasions, and that a \$280.00 check for electrical services had been paid to a subcontractor although they were also included in the check to the general contractor.

Please look into this case and advise what action you recommend in connection with this call and whether you think it would be advisable to ask the auditors to make a special audit of Springfield Equities to obtain additional information relative to the specific case.

K. A. DUNCAN.

FEDERAL NATIONAL MORTGAGE ASSOCIATION

MEMORANDUM

AUGUST 28, 1970.

To: Miller—Regional Director, Examination and Audit Division.

From: Assistant Regional Vice President.

Subject: Springfield Equities, Ltd., Karakson & Pack, 128-12 Gotham Road, S. Ozone Park, N.Y.

Attached is a memorandum of Regional Counsel's to Mr. Duncan dated August 24, 1970 covering his recent visit to New York City to investigate a fire loss involving one of our secured properties. You will recall that I discussed the contents of the memorandum with you recently, and I understand that Mr. Judd will visit this Servicer on September 2, 1970 for the purpose of further investigating the handling of the matter.

You will recall that I pointed out to you that, although this fire loss was in the amount of \$10,850.00, that being the extent of the settlement with the insurance company; nevertheless, the Servicer has not reported the matter to this office as required. Additionally, the Servicer has proceeded to arrange for the restoration

of the property, lining up a contractor and making partial disbursements along the way. At this moment, from the information contained in the monthly mortgage statements, which Mr. Reed obtained, it appears that \$10,630.00 has been disbursed to the contractor with an additional \$40.00 retained by the Servicer as "inspection fees," which would leave a balance of \$180.00 from the insurance loss payment, which amount is apparently still held by the Servicer.

I do not know why the Servicer claimed \$40.00 in inspection fees, and no doubt Mr. Judd will check on this point when he visits the Servicer. Additionally, although the sum of \$10,630.00 was expended for restoration, Mr. Reed reports that the contractor did a poor job, eventually abandoned the work, and that the premises are still uncompleted.

I shall appreciate your report as soon as possible.

OLIVER J. McCARRON.

[CONFIDENTIAL]

FEDERAL NATIONAL MORTGAGE ASSOCIATION

MEMORANDUM

AUGUST 24, 1970.

To: Duncan, Regional Vice President.

From: Regional Counsel.

Subject: Springfield Equities, Ltd.

Pursuant to your memorandum of August 6, I investigated the subject matter in New York, on August 21, and 22, 1970.

On August 21, I talked to Inspector Adam Tatem, at his office at 80 Lafayette Street, New York City, which is down below Canal Street.

I still do not have a complete picture of what happened. Inspector Tatem's office, a State or consumer protection organization, was robbed recently, and finding little cash, the intruders tossed about or destroyed various files and records, which seriously hampers him. The following is the best that I can do.

Mortgagors Lenore Karakson and her daughter, Eva Pack, suffered a serious fire at 128-12 Gotham Road, South Ozone Park, N.Y., 11420, on which we hold the mortgage. The Servicer secured the property, a frame house, by boarding it up, said to have been at an excessive price.

Apparently there was a claim adjuster, but in any event, the insurer paid off in the amount of \$10,850, credited to her account by Springfield on April 1, 1970. (our loan file shows nothing.) See Ex. A.

Rockaway Contracting Corporation, of which Henry Sullivan is owner and President, contracted to repair the damage. Inspector Tatem had a copy of the contract, but it was destroyed in the robbery, and he requests that he receive another copy if we obtain one from Springfield.

As work progressed, mortgagors furnished to Springfield a disbursement authorization, such as Ex. B, up to a point of time.

The contractor did a poor job, and eventually abandoned it, uncompleted. He chose the wrong victim—she works for the Police Department, and took very good photographs which I saw. Among other things, the bathroom tile is incomplete. The place is uninhabitable. A complaint of the City Housing and Development Administration, dated January 26, 1970 (Ex. C) has not been met. This is filed in Queens Criminal Court, Part 6 as No. 368/70. The contractor did not obtain a building permit, according to Mr. Tatem.

Bathroom fixtures are lacking, the floors in the house in general are in bad shape and not refinished, closet doors and trim and walls are incomplete.

Springfield charged inspection fees of \$20.00 to mortgagors' account. (Some appear Ex. A.) The question is whether there was an inspection, but I note that the first one occurred before repairs started.

The contractor is said to have been paid about \$7,000.00 for a botched job. The release of \$500.00 on May 15, 1970 (Ex. A, pg. 4) is said to have been made without authorization of the mortgagors, when they were dissatisfied.

Springfield is alleged to have paid the contractor for electrical work, for which he did not pay the electrical sub-contractor, who filed a mechanics lien, now on the property. This lien, for \$250,000 balance, was filed July 22, 1970. I am not sure that Servicers must police a general contractor.

Springfield paid the contractor for lumber and trim (according to Inspector Tatem) in the amount of \$701.25. The supplier, Ozone Park Lumber Corp. did not receive all of this money, and filed a mechanics lien for \$250.00 on July 22, 1970. See Ex. D.

Inspector Tatem says that the contractor's principal, Henry Sullivan, was arrested on complaint of mortgagors. Hearing has been postponed to November 12, 1970, to give us a chance to take a position. Presumably, he is out on bail.

Several of the officers of Springfield are lawyers. The District Attorney is expected to go after them, with a possible bar censure, according to Inspector Tatem.

Inspector Tatem thought that we were "the United States" and might take action. I explained our status, and he cited the New York Penal Law, Secs. 105.00, 105.05 and 105.10 as available to us. I told him that I could not pass upon the matter, that our usual action for incompetent servicing was to discontinue the activity on our behalf.

The next day, August 21, 1970, I talked to Mr. Condon, FHA, Hempstead, L.I., N.Y. There I learned little more. FHA has not investigated, for it is said to be our problem. However, Mr. Condon said that one of the New York savings banks had some similar experience with Springfield, and transferred servicing.

In direct reply to your memorandum of August 6, it is my opinion that if the foregoing is true, Springfield may be incompetent, to say the least. I recommend a special audit, with the caution that what we discover may result in our auditors being witnesses in a criminal prosecution. The remainder of my comments I prefer to make to you personally.

JOHN R. REED.

FEDERAL NATIONAL MORTGAGE ASSOCIATION

MEMORANDUM

OCTOBER 6, 1970.

To: Duncan, Regional Vice President—FNMA.

From: Miller, Regional Director, Examination and Audit—Philadelphia.

Subject: Audit of Servicer, Springfield Equities, Ltd., Jamaica, N.Y.

We have examined the records maintained by this Servicer on FNMA and GNMA mortgages, and reviewed its procedures for servicing these mortgages. The audit began on September 8 and ended on September 24, 1970.

At July 25, 1970, the effective date of our audit, the Servicer was servicing 873 FNMA mortgages and 5 GNMA mortgages for the Northeast Regional Office, and 618 for other investors.

The Servicer began servicing for FNMA in February 1968 and has not been previously audited.

Nine findings are shown on Exhibit A. These findings were discussed with Mr. Louis I. Lerner, Vice President, and Mr. Nicasio Corsello, Mortgage Officer and Servicing Manager, who agreed to correct the deficiencies shown by Findings 1 through 8 but we were unable to obtain an agreement for clearance of Finding No. 9.

Finding No. 1 is serious in our opinion, because it concerns inaccurate certifications at the time of submission of 10 mortgages to FNMA. Certain details, which we consider an integral part of evaluation of the importance of the inaccurate certifications by the Seller/Servicer are shown on Exhibit AA. We do not consider these details appropriate for transmission to the Seller/Servicer.

Findings 2 through 8 are also serious, in our opinion, because they show material deficiencies in the Servicer's records or procedures. We suggest that the Servicer be required to (i) confirm its agreement to correct these deficiencies; (ii) describe in detail the steps it takes to clear Finding No. 1; and (iii) advise FNMA when the review contemplated in Finding No. 3 has been completed and reimbursement of tax penalties made to individual mortgagor's escrow funds.

Finding No. 9 concerns the Servicer's use of the services of O'Flynn & Verity, Inc., tax searchers, and the charging of \$4.00 a year to each mortgagor for this service. As shown in the finding and in the memorandum written by Mr. Corsello on September 21, 1970 (copy attached to Exhibit A-3), the Servicer wishes to continue charging mortgagors for this service. We have noted in our recent audits of Regency Equities Corp., East Meadow, N.Y. and Marshall Associates, Jericho, N.Y., that both of these Servicers use O'Flynn & Verity, Inc., but neither of them charges the mortgagors for this service. We suggest that the Servicer be instructed to discontinue charging mortgagors for services performed by O'Flynn & Verity, Inc.

Exhibit B contains 10 findings which we did not consider serious. These were discussed with the Servicer's officials who have agreed to take the appropriate action. No further action is necessary but we believe it would be desirable to send the Servicer a copy of Exhibit B.

We feel you may be interested in the following comments:

The Servicer's Mortgage Officer, who is in charge of mortgage servicing, has been with the Servicer for only about one year. During the past year, the Servicer's portfolio of FNMA mortgages has increased from 281 mortgages at 7/25/69 to 873 mortgages at 7/25/70. The Servicer has not increased its staff sufficiently to keep pace with the substantial increase in the size of its servicing portfolio.

The unfamiliarity of the Mortgage Officer and his staff, with FNMA servicing requirements has accounted for many of the deficiencies reported in the above findings.

In addition to the lack of sufficient personnel, the Servicer's offices have been overcrowded. The Servicer plans to move to larger quarters in November, at which time the Servicing Department will occupy space almost as large as the Seller/Servicer's entire office space at the present time.

We discussed with Mr. Lerner, the need for additional servicing personnel, particularly a person trained in mortgage servicing who can help Mr. Corsello run the servicing operations. Mr. Lerner stated that within the next few weeks he will hire such a person, and that he also plans to hire at least one additional person for the Servicing Department.

In our opinion, the Servicer is sincere in its desire to do a good job for FNMA, as evidenced in part by its delinquency ratio of 4.5% for June and July 1970, and we believe that appropriate action will be taken to clear the findings.

The Appendix to this report contains additional information and comments concerning the Servicer's activities.

We shall appreciate two copies of your letter to Mr. Sanford Allinson, President, confirming the agreements for clearance and a copy of the Servicer's reply.

ARTHUR W. MILLER.

Exhibit A

FEDERAL NATIONAL MORTGAGE ASSOCIATION, EXAMINATION AND AUDIT DIVISION—FIELD OFFICE, PHILADELPHIA

Re Springfield Equities Ltd.

DEFICIENCIES WHICH THE SERVICER AGREED TO CORRECT

1. INACCURATE CERTIFICATIONS THAT ALL MATURED MORTGAGE INSTALLMENTS HAD BEEN PAID BY THE MORTGAGORS (Sec. 617 Sellers Guide)

For each of the following 4 mortgages sold to FNMA since January 1, 1969, the Seller/Servicer had not received the latest matured installment from the mortgagor at the time the mortgage submission or resubmission, was received (after 15th of month) by FNMA:

(A) 31-800001 (*Kelly*)

The Mortgage Submission Voucher (FNMA Form 305) was signed by the Seller/Servicer on 2/5/70 and mailed to FNMA on 2/16/70 (received 2/19/70). On this voucher the Seller/Servicer showed that the 2/1/70 installment was paid. The mortgage was purchased by FNMA on 3/4/70 at the 2/1/70 balance.

The Seller/Servicer's records show that a telegram was sent to the mortgagor 2/25/70 demanding the 2/1/70 installment of \$206.00 plus a late charge of \$4.12. According to the Servicer's warehouse records, the 2/1/70 installment was paid 2/27/70. At 8/25/70 the mortgagor owed three installments.

(B) 31-800135 (*Patterson*)

The Mortgage Submission Voucher, showing that the 2/1/70 installment was paid, was signed by the Seller/Servicer 2/17/70 and mailed to FNMA on the same day (received 2/19/70). FNMA purchased the mortgage on 3/4/70 at the 2/1/70 balance.

According to the Servicer's records, a telegram was sent to the mortgagor 2/25/70 demanding the 2/1/70 installment of \$207.00 plus a late charge of \$4.14. On 3/13/70 the Servicer wrote to the mortgagor and requested that the 2/1 and 3/1 installments be paid. Delinquency follow-up records show that a new owner (Richard Wilson) paid the 2/1 and 3/1 installments on 6/3/70 and promised 1½ payments each month until the mortgage was brought current. At 8/25/70, the mortgagor owed the 7/1 and 8/1/70 installments.

(C) 31-508268 (Patterson)

The Mortgage Submission Voucher was submitted to FNMA 2/24/69, at which time the first installment was not due. The mortgage submission was rejected by FNMA on 4/2/69, 4/15/69 and 5/6/69. The mortgage was again resubmitted to FNMA 5/7/69 with the 5/1/69 installment shown as paid.

The ledger transcript which was sent to FNMA with the resubmission, shows payment dates that do not agree with the Servicer's records, as follows:

Installment due date	Date paid—	
	Per ledger transcript sent to FNMA	Per servicer's records
March 1, 1969	March 3, 1969	April 24, 1969.
April 1, 1969	April 4, 1969	Do.
May 1, 1969	May 5, 1969	June 11, 1969.

The mortgage was purchased by FNMA 6/4/69 at the 5/1/69 balance, and no payments have been made since that time. The mortgage is in foreclosure.

(D) 31-304978 (Olmo)

The Mortgage Submission Voucher was submitted to FNMA 11/27/68, at which time the first installment was not due. The submission was subsequently rejected by FNMA on 12/31/68 and again on 1/13/69.

At the time of the resubmission on 1/24/69, the voucher prepared by the Seller/Servicer showed that the 1/1/69 installment had been paid, and the ledger transcript which was sent to FNMA showed that the 12/1/68 installment was paid on 12/1/68 and the 1/1/69 installment paid on 1/1/69. However, the Servicer's cash receipt records show that both the 12/1/68 and 1/1/69 installments were paid 2/19/69. FNMA purchased the mortgage on 2/5/69 at the 1/1/69 balance. At 8/25/70, the mortgage was in foreclosure.

In addition to the four mortgages shown above, the following six mortgages, which were sold to FNMA since January 1, 1970, were received by FNMA before the 15th of the month and consequently it was not necessary for the current month's installment to be paid. However, in each instance the Seller/Servicer reported on the Mortgage Submission Voucher that the current month's installment had been paid, but we found that the Servicer's records did not support these statements:

(E) 31-715478 (Blake)

The Mortgage Submission Voucher was sent to FNMA on 2/5/70 and was received by FNMA 2/11/70. The Seller/Servicer reported that the 2/1/70 installment had been paid. FNMA purchased the mortgage 2/17/70 at the 2/1 balance.

According to the Servicer's records, a telegram was sent to the mortgagor 2/25/70 demanding the 2/1/70 installment of \$220.00 plus a late charge of \$4.40. The Servicer received \$200.00 on 3/2/70 and wrote to the mortgagor 3/13/70 requesting the 3/1 installment plus \$20.00 as the amount owed on the 2/1 installment. At 8/25/70 the mortgage was current.

(F) 31-800525 (Gray)

The Mortgage Submission Voucher was sent to FNMA 3/5/70, at which time the Seller/Servicer reported that the 3/1/70 installment had been paid. FNMA purchased the mortgage 3/12/70 at the 3/1/70 balance. The Servicer's records show that the 3/1/70 installment was credited 3/16/70.

The mortgage paid the 4/1 installment on 4/15/70 but he has made no payments since that time, and the mortgage was in foreclosure at 8/25/70.

(G) 31-710092 (Pagetti)

The Mortgage Submission Voucher was sent to FNMA 1/7/70, at which time the Seller/Servicer reported that the 1/1/70 installment had been paid. FNMA purchased the mortgage 1/16/70 at the 1/1/70 balance. The Servicer's records show that the 1/1/70 installment was credited 1/12/70. At 8/25/70 the mortgagor owed the 8/1 installment.

(H) 31-711562 (Lyon)

The Mortgage Submission Voucher was sent to FNMA 1/5/70, with the 1/1/70 installment reported as having been paid. FNMA purchased the mortgage 1/26/70 at the 1/1/70 balance. The Servicer's records show that the 1/1/70 installment was credited 1/22/70. At 8/25/70 the mortgage was current.

(I) 31-800524 (Clark)

The Mortgage Submission Voucher was sent to FNMA 3/5/70, at which time the Seller/Servicer reported that the 3/1 installment had been paid. FNMA purchased the mortgage 3/12/70 at the 3/1 balance. The Servicer's records show that the 3/1/70 installment was credited 3/31/70. At 8/25/70 the mortgage was current.

(J) 31-804434 (Douglas)

The Mortgage Submission Voucher was sent to FNMA 7/8/70, at which time the Seller/Servicer reported that the 7/1 installment had been paid. FNMA purchased the mortgage 7/21/70 at the 7/1 balance.

A memorandum dated 7/27/70 from the Seller/Servicer's warehouse division to its servicing department indicated that the July payment had not been received. The Servicer's records show that the 7/1/70 installment was credited 7/31/70. At 8/25/70 the mortgage was current.

The above cases were discussed with Mr. Louis I. Lerner, Vice President, at which time we stated that in our opinion the Seller/Servicer's procedures are inadequate for determining at the time of submission, whether the current month's installment had been received and credited to the mortgagor. In this respect, the Seller/Servicer's procedures do not provide for the establishment of a mortgage ledger card for the period between the time the mortgage is closed and the date FNMA purchases the mortgage. When installment payments were received prior to purchase by FNMA, the collection was recorded in the Seller/Servicer's cash receipts book and showed only the mortgagor's last name and the total amount received.

Mr. Lerner stated that in many cases outside collectors received checks from mortgagors but did not turn them in at the Servicer's office until some time later. At the time of submission, information was shown on the Mortgage Submission Voucher based on telephone calls from collectors, who said they had the current month's installment. Mr. Lerner also said that the Seller/Servicer had lost some money through failure of collectors to turn in the funds, in which case the Seller/ Servicer put up its own funds to cover the loss.

(a) Mr. Lerner stated that the Servicer would immediately establish procedures to prevent the submission or resubmission of a delinquent mortgage to FNMA. Procedures are to be established so that mortgage ledger cards will be maintained while the mortgage is in a warehouse bank. Mr. Nicasio Corsello, Mortgage Officer, who is in charge of the servicing department, is to be charged with the responsibility of ascertaining that the current month's installment has been received and recorded on the mortgage ledger card, at the time the information is put on the Mortgage Submission Voucher and sent to FNMA.

(iii) The files do not contain copies of bills or receipts in support of disbursements to contractors or insure adjustors, or release of funds to mortgagors. (We examined the cancelled checks.)

(iv) The Servicer had not informed FHA of the restoration of the properties and had not obtained a statement from FHA that the mortgage insurance will continue in force.

(v) For one insurance loss (Loan No. 31-305578), the files do not show that the property was inspected after restoration to determine that the work had been completed in a satisfactory manner and the property restored to a condition as good as, or better than it was before the loss was sustained. (Mr. Corsello stated that the property had been inspected.)

The Servicer was unfamiliar with Section 121 of the Servicers Guide concerning the handling of insurance loss settlements. Mr. Corsello stated that for Loan No. 31-525082 the mortgagor generally came into the office and gave verbal approval for release of funds (item ii) above.

(a) Mr. Corsello stated that the Servicer will contact FHA and obtain a statement that the mortgage insurance will continue in force for each of the three mortgages shown above. He also stated that from now on insurance loss settlements will be handled in accordance with Section 121 of the Servicers Guide.

5. LATE CHARGES BILLED AND COLLECTED SEVERAL MONTHS AFTER LATE PAYMENTS WERE ACCEPTED (SEC. 105 SERVICERS GUIDE)

The Servicer accepted monthly installments after the 15th of the month which did not include late charges, but continued to bill and collect these charges beyond

the date the next installments were accepted. Examples of these mortgages with dates of late installments, shown on Exhibit A-2, indicate the Servicer's practice concerning late charges.

The Servicer's mortgage accounting records are maintained by a service bureau (Financial Services, Inc.), who have been instructed by the Servicer to accrue late charges for each mortgage on the 15th of the month, if that month's installment has not been received by that date. These late charges continue to build up and are shown on the trial balance that the Servicer receives from the service bureau. Whenever a mortgagor pays late charges, these are posted to the mortgage record and late charges receivable are reduced accordingly.

The Servicer's procedures do not provide that late charges will be waived, if not collected on the date the next installment is accepted by the Servicer.

(a) Mr. Lerner stated that the Servicer will immediately discontinue billing for and collecting late charges that are not collected at the time the late payment is accepted or at the time the next installment is received from the mortgagor.

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6. HANDLING OF FORECLOSURES INADEQUATE (SEC. 116 SERVICERS GUIDE AND SPECIAL INSTRUCTIONS TO FNMA SERVICERS WHO LIQUIDATE VA AND FHA HOME MORTGAGES)

The Servicer's overall handling of foreclosures is inadequate in the following respects:

(i) The Servicer did not refer the following cases to Field Counsel until 27 to 34 days after FNMA forwarded the mortgage documents to the Servicer with instructions to foreclosure:

FNMA No.	Date of FNMA letter	Date referred to field counsel	Elapsed days
31-704362.....	Mar. 19, 1970.....	Apr. 15 1970.....	27
31-502548.....	May 21, 1970.....	June 19, 1970.....	29
31-510911.....	May 20, 1970.....	June 23, 1970.....	34
31-502400.....	Sept. 23, 1969.....	Oct. 22, 1969.....	29
31-303170.....	do.....	Oct. 21, 1969.....	28

(ii) For the following mortgages, the Servicer's files do not show that any follow-up was maintained with Field Counsel during the period between the date of referral to Field Counsel and the date of our visit (9/18/70):

FNMA No.	Date referred to field counsel	Elapsed days to Sept. 18, 1970
31-502548.....	June 19, 1970.....	91
31-504104.....	July 31, 1970.....	49
31-510911.....	June 23, 1970.....	87

(iii) The Servicer filed FHA Form 2068 (Notice of Default Status) with FHA indicating that foreclosure had started on the same date that it referred the mortgage to Field Counsel for foreclosure. We brought it to the Servicer's attention that certain legal action on the part of Field Counsel constitutes the commencement of foreclosure and that the Form 2068 should be forwarded to FHA at that time, with a copy being sent to FNMA.

(iv) At the time of acquisition (5/5/70) of the property formerly securing Loan No. 31-303170, the property was vacant but the Servicer did not notify FHA by Form 2068 until a week later (5/12/70) and did not file an FHA Form 1025 (Notice of Election to Convey) until 6/8/70.

Also for Loan No. 31-502400 the property was acquired 4/16/70 but Form 2068 was not filed until 4/30/70.

(v) We were unable to find any evidence in the Servicer's files to show that monthly property inspections had been made for the following cases that were in foreclosure:

EXHIBIT A
FINDING NO. 6

Loan number	Date foreclosure authorized	Month when no property inspections were indicated
31-704362.....	Mar. 19, 1970.	May through August 1970.
31-502548.....	May 21, 1970.	June through August 1970.
31-504104.....	July 24, 1970.	August 1970.
31-510911.....	May 20, 1970.	June through August 1970.
31-502400.....	Sept. 23, 1969.	October and November 1969. January through March 1970.
31-303170.....	do.....	May through August 1970. December 1969 through May 1970.

The Servicer's personnel were not fully aware of the Servicer's responsibilities concerning the follow-up and reporting on foreclosure cases. Mr. Corsello explained that follow-up had been made with Field Counsel by telephone but notations had not been made in the files. He said that two of the Field Counsel are new and that because of their inexperience (in FNMA foreclosure procedures as well as the Servicer's) the necessary information had not been obtained and foreclosures had not been completed promptly. Mr. Corsello also said that in some cases properties had been inspected, but no Form 30 (Property Inspection Report) prepared.

(a) Mr. Lerner stated that from now on the Servicer will (i) refer cases to Field Counsel promptly after FNMA instructs the Servicer to foreclose; (ii) maintain a close follow-up with Field Counsel to assure that foreclosures are handled expeditiously and that the Servicer is kept informed of the status of the case; (iii) report that foreclosure has started only when such information has been obtained from Field Counsel; (iv) notify FHA that foreclosure has been completed (Form 2068) promptly after the sale has been held; and (v) make monthly property inspections for cases in foreclosure and file a FNMA Form 30 in the mortgage file showing the results of each inspection.

7. TRANSACTION DATES NOT SHOWN CORRECTLY ON MORTGAGE LEDGER CARDS AND APPLICATION OF UNAPPLIED PAYMENTS NOT SHOWN ON THE CARDS (SEC. 202 SERVICERS GUIDE)

The mortgage ledger cards (history runs) do not show correct dates, or are incomplete in the following ways:

(i) For at least 9 checks drawn on the FNMA Custodial Account in recent months, the date of disbursement shown on the mortgage ledger cards is the date of posting instead of the date shown on the check. The posting dates are generally the first business day after the dates on the checks.

(ii) The mortgage ledger cards do not show the date on which installments are reversed (NSF checks) but instead show only the due date of the installment being reversed.

(iii) Credits to unapplied payments are properly shown on the mortgage ledger cards but when these funds are subsequently applied, no debit to unapplied payments is shown on the ledger card.

This matter was discussed with Mr. Lerner and Mr. Corsello, who are of the opinion that this tax service is beneficial to both the mortgagor and FNMA and that the \$4.00 charge to each mortgagor is justified.

(a) Attached as Exhibit A-3 is a memorandum dated 9/21/70, in which Mr. Corsello explains that Servicer's reasons for wanting to continue this tax service and its justification for wanting to continue charging the mortgagors.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION EXAMINATION AND AUDIT DIVISION—
FIELD OFFICE PHILADELPHIA**

In our initial review, we examined the Seller/Servicer's records on 5 mortgages sold to FNMA within the past two years. All of these mortgages were in foreclosure at 7/25/70, the effective date of our audit.

According to the Seller/Servicer's records, two of five mortgages were not current at the time of submission to FNMA.

Because of the two mortgages mentioned above, we expanded our audit to include an additional 60 mortgages sold to FNMA. This selection included all mortgages that were in foreclosure or were two or more months delinquent at

7/25/70. We found that eight of these mortgages had an indication of inaccurate certifications.

In all, we examined 65 cases and found inaccurate certifications in 10 cases, as shown in Finding No. 1. At 8/25/70, four of the ten loans were current, three were delinquent and three of them were in foreclosure.

Of these 10 cases, six would have been eligible for purchase by FNMA without the current month's installment having been paid, but the Servicer stated on the Mortgage Submission Voucher that the current installment had been paid.

In our opinion, the inaccurate certifications resulted from inadequate procedures on the part of the Servicer, and not from a deliberate attempt by the Servicer to misrepresent the facts presented to FNMA.

We suggested that the Seller/Servicer furnish us with a letter concerning the 10 inaccurate certifications, including an explanation of the procedures followed in submitting mortgages to FNMA for purchase.

Attached is a copy of a letter dated September 18, 1970 from Mr. Sanford Allinson, President, on these procedures, with an attached copy of an intra-office memorandum to the Servicer's staff concerning procedures for processing submissions in the future.

The letter also includes an attachment titled "Comments" which indicates that in many cases the Collectors delayed in turning in the monthly payments for the loans cited in the finding and that this condition was determined by an "audit review." The Servicer's files do not contain written data or evidence to show that for the loans involved, the non-receipt of funds was due to withholding of funds by the Collectors. However, based on conversations with Servicer's key personnel, it is quite possible that this was the cause in some instances.

(a) Mr. Lerner stated that the Servicer will change its procedures, as well as its instructions to the Service Bureau, in order to show on mortgage ledger cards—(i) actual disbursement dates; (ii) the actual date on which installments are reversed; and (iii) debits to unapplied payments.

EXCESS ESCROW FUNDS NOT REMITTED TO FNMA (PART III SERVICERS GUIDE)

The FNMA Form 179 (Report of FNMA Custodial Account) for the months of June, July, and August 1970 showed the following information concerning excess escrow funds:

Report month	Escrow held by servicer (line 9, col. 1)	T. & I. limita- tion (line 10, col. 1)	Excess escrow
June.....	\$125,203.11	\$109,770.10	\$15,433.01
July.....	171,014.18	117,251.42	53,762.76
August.....	205,957.47	121,919.06	84,038.41

The above excess funds were not remitted to FNMA, and in each instance, the Servicer stated on the reverse side of the Form 179 that the excess funds were being retained to pay the 1st Quarter 1970 New York Real Estate Taxes (penalty date 8/31/70). However, escrow disbursements in July and August 1970 were \$12,528.03 and \$22,859.30 respectively, each of which was considerably less than the amount the Servicer was permitted to retain.

(a) The Servicer apparently did not fully understand the FNMA requirements concerning excess escrow funds. We pointed out that the excess funds should be retained only when it is known that the amount held by the Servicer will be insufficient to pay bills due the following month.

Mr. Lerner stated that the Servicer will comply with FNMA requirements from now on.

DEFICIENCIES ON WHICH CORRECTIVE ACTIONS WERE NOT ARRANGED

9. MORTGAGORS CHARGED WITH FEES FOR TAX SEARCHES (Sec. 100 Servicers Guide)

Section 100 of the Servicers Guide provides that the Servicer is obliged to perform for FNMA, services customarily required of a mortgagee, and that it is expected that the Servicer will not collect fees from the mortgagor for any service performed by the Servicer in behalf of FNMA.

Instead of maintaining its own system for obtaining of real estate tax bills prior to due date, the Servicer uses the services of O'Flynn & Verity, Inc., who are tax searchers in the New York City area. For these services in 1969, the Servicer

disbursed \$1,976.00 to O'Flynn & Verity, Inc. from the FNMA Custodial Account on 1/15/70. Each of 494 FNMA mortgagor's escrow accounts were charged \$4.00 for this tax service.

SPRINGFIELD EQUITIES LTD.,
Jamaica, N.Y., September 18, 1970.

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
Philadelphia, Pa.

(Att: Mr. Thomas E. Judd, Assistant Regional Director)

DEAR MR. JUDD: Your recent audit of our company has raised a question concerning the proper procedures in effect relative to submissions to FNMA and the purchase of loans by FNMA.

Springfield began servicing loans in the early part of 1969. We established our servicing department under the supervision of a principal stockholder of our company. Springfield then employed personnel with some servicing backgrounds and banking experience.

During these formative months our servicing department was engaged in a rapid development both with FNMA servicing and other financial institutions. e.g. Equitable Life Insurance Society, Dime Savings Bank of Williamsburgh.

Our servicing department immediately experienced a rapid growth, starting with approximately four million dollars of loans to approximately thirty million dollars as of this date.

Springfield recognizing the significance and importance of the servicing division in August 1969 put two principal partners at the head of the servicing division.

Recognizing the absolute need of more experienced top managerial skills as related to the servicing posture, Springfield arranged for the employment of Mr. Nick Corsello as Chief Mortgage Officer of the Springfield Servicing Division. In addition, Mr. Corsello arranged for a complete overhaul of both the accounting and servicing personnel and as of today, our own outside auditors have rated the fiscal functions of our servicing division as superior.

Mr. N. Corsello, the Chief Mortgage Officer, was previously employed in the servicing department of two major savings banks in the metropolitan area. Mr. Corsello has had a significant experience factor in the intimate details of a large servicer.

Pursuant to our discussion with you relative to procedures concerning submissions and purchase of loans by FNMA, we wish to advise you that additional restrictions have put upon our warehousing, banking, and auditing staffs, to provide that no reoccurrence can ever reoccur in certain areas.

Specifically, the auditing department must now effectively determine the receipt of monthly payments. These monthly payments must now be either mailed in by the outside collectors or brought in personally before twenty four hours have elapsed. The date of the receipt of the funds in our auditing office will be the guideline for shipments to FNMA.

In the 1969 period, Springfield had engaged collectors to obtain funds for monthly payments and in many instances we permitted the collectors to hold on to funds for in some instances as long as twenty to thirty days. Moreover, our accounting procedures did not provide for detailed information indicating the exact date of collection and relating to the date of deposit in our principal bank accounts.

In the same 1969 period, while this extraordinary expansion was going on, we determined that the mortgage officer then in charge (Mickey Chernoff) was inadequate in functioning as chief mortgage officer, and under his supervision many losses in cash remittances from collectors was experienced. This situation was immediately rectified by the employment of Mr. Corsello.

We have examined the specific cases submitted to us and under separate cover we are forwarding to you our analysis and explanation of each and every case.

We also wish to advise you that your audit has brought to our attention many important areas which we will now submit to a much tighter audit procedure by our internal staff. We assure you that our company will put into effect those procedures you have recommended immediately, and no reoccurrence will prevail in the future.

Very truly yours,

SANFORD ALLINSON, *President.*

SPRINGFIELD EQUITIES LTD., SEPT. 18, 1970

Name	Loan number	Comments
Kelty.....	800001	An audit review of this case indicates that the FNMA shipping department had been advised by a collector that funds had been collected and held out until collector came into office.
Blake.....	715478	An audit review indicates that the collector withheld funds until coming into office.
Patterson.....	800135	An audit review indicates that the collector had withheld or not submitted funds.
Gray.....	800525	An audit review indicates that the collector turned in funds at later date.
Pagett.....	710092	Do.
Lyon.....	711562	Do.
Clark.....	800524	Do.
Patterson.....	508268	Do.
Olmo.....	304978	Do.
Douglas.....	804434	Do.
McDavid.....	804791	Do.

Date: September 18, 1970

Subject: Audit revisions related to FNMA submissions

To: Servicing Department

Warehousing Department

Closing Department

Legal Department

Outside Auditors

Internal Auditors

1. Based upon findings of FNMA auditors the following procedures are to be implemented effective this date and no variances in procedures are to be permitted under any circumstances.

2. All closed loans are to be warehoused immediately with our servicing division.

3. Servicing Division will immediately set up loans with financial service preparing mailing data etc.

4. Servicing Division will now prepare the 305 necessary for FNMA submission and purchase.

5. Servicing Division will only submit loans that are current.

6. All monies held in hands of collectors or any other individuals are *never* to be considered as collected and no 305 submission can be made unless the receipts are recorded on our electronic data processing records.

7. Servicing Division is to handle all delinquencies and such delinquencies are now to be brought to the attention of a supervising partner.

8. All monies collected in the hands of collectors are to be set up on a schedule and in the event that the money is not remitted via money order actual money, etc. within 24 hours this event must be reported both to the mortgage officer and a supervising partner.

9. All memorandums relative to these items are to be circulated on a daily basis to the internal auditing division and a supervising partner.

2. REMITTANCES NOT MADE PROMPTLY (SEC. 205 SERVICERS GUIDE)

According to the net total reported on the FNMA Form 253 (Monthly Summary of Remittances) the Servicer should have commenced remitting collections to FNMA on a daily basis in July 1969. However, the Servicer was unfamiliar with the FNMA remitting requirements and has been remitting approximately only once a week in three of the past four months—(May, July and August 1970) and twice a week during the other months during 1970.

(a) Mr. Lerner stated that the Servicer will immediately start remitting collections to FNMA on a daily basis.

3. TAX PENALTIES INCURRED AND CHARGED TO MORTGAGORS (SEC. 119 SERVICERS GUIDE)

Exhibit A-1 shows certain tax penalties (\$127.43) which were incurred and charged to the related mortgagors' deposit accounts. Mr. Nicasio P. Corsello, Mortgage Officer, stated that the Servicer's procedures provide that tax penalties be charged to mortgagors, and that these penalties later be recovered from O'Flynn & Verity, Tax Searchers, and credited to the related mortgagor's account. Mr. Corsello said that the Servicer had not had the opportunity to perform the intended review and as a result the tax penalties had not been refunded and credited to the mortgagors' accounts.

(a) Mr. Lerner stated that the Servicer will review all tax disbursements made within the past year and reimburse the mortgagors' deposit accounts for penalties charged to the mortgagors, including those penalties shown on Exhibit A-1.

EXHIBIT A-1

FEDERAL NATIONAL MORTGAGE ASSOCIATION—EXAMINATION AND AUDIT DIVISION, FIELD OFFICE, PHILADELPHIA

TAX PENALTIES INCURRED AND CHARGED TO MORTGAGORS' ACCOUNTS

Taxes paid				Taxes paid			
FNMA No. (prefix 31)	Date (per ledger card)	Amount	Penalty	FNMA No. (prefix 31)	Date (per ledger card)	Amount	Penalty
504104	Feb. 26, 1970	\$148.32	\$4.36	504222	Feb. 24, 1970	370.79	10.89
505405	do	208.22	6.12	303169	Feb. 2, 1970	250.95	4.80
504219	do	285.22	8.38	303169	Mar. 30, 1970	177.44	16.62
504224	do	125.49	3.69	513396	do	284.78	6.66
504908	Feb. 24, 1970	213.90	6.28	712794	Apr. 28, 1970	232.40	2.62
504220	do	171.13	5.03	507788	do	77.75	1.75
506672	do	117.60	4.10	507788	do	450.02	12.62
504217	do	213.90	6.28	712796	do	181.99	2.05
503799	do	199.64	5.86	713023	do	212.80	2.40
504327	do	242.44	7.12				
504223	do	114.09	3.35	Total			127.43
504914	do	219.61	6.45				

4. INSURANCE LOSS SETTLEMENTS NOT HANDLED PROPERLY (SEC. 121 SERVICERS GUIDE)

We reviewed the Servicer's handling of three insurance loss settlements, in amounts of \$10,850.00 (Loan No. 31-515418), \$4,447.56 (Loan No. 31-305578), and \$3,950.00 (Loan No. 31-525082), and found the following deficiencies:

(i) The Servicer did not prepare and forward to FNMA a Form 176 (Report of Hazard Insurance Loss), or any other notification of the loss or recommendation concerning disposition of the loss proceeds. Also, the Servicer did not complete a FNMA Form 177 (Insurance Loss Settlement).

(ii) The Servicer's files do not show that authority for release of funds was received from the mortgagor in the following cases:

Loan No. and payee	Disbursements		Purpose
	Date	Amount	
31-515418: Chamlin & Spitzer, Inc.	Mar. 31, 1970	\$1,385.00	Adjustor's fee—\$1,085; boarding property—\$300.
31-515418: Rockaway Contractors	May 15, 1970	500.00	Repairs.
31-305578: Perry Cohen Associates	May 7, 1970	555.93	Adjustor's fee (12½ percent).
31-305578: Larry DiPeppo	do	53.00	Securement of property.
31-525082: (Various)	(Various)	2,155.91	(Various).

LATE CHARGES BILLED AND COLLECTED SEVERAL MONTHS AFTER LATE PAYMENTS WERE ACCEPTED
EXHIBIT A-2 (FINDING NO. 5)

Loan number	Installments accepted without late charge			Installments accepted prior to collecting the late charge	Late charge collected on installments in column 2	
	Due	Paid			Date	Amount
31-304876.....	Jun 1, 1969	Jun 30, 1969		Jul 1, 1969—Jun 1, 1970, all paid on time.	Jun 9, 1970	\$3.54
31-502794.....	Sept. 1, 1960	Sept. 24, 1969		Nov. 1 and Dec. 1, 1969, paid on time.	May 22, 1970	3.10
	Oct. 1, 1969	Oct. 16, 1969		.....do.....	.....do.....	3.10
	Jan. 1, 1970	Jan. 19, 1970		.....do.....	.....do.....	3.10
	Feb. 1, 1970	Feb. 19, 1970		.....do.....	.....do.....	3.10
	Mar. 1, 1970	Mar. 20, 1970		.....do.....	.....do.....	3.10
Total.....						15.50
31-504221.....	July 1, 1969	Aug. 13, 1969		Sept. 1, 1969 to June 1, 1970, all paid on time.	June 24, 1970	2.90
	Aug. 1, 1969	Aug. 27, 1969		.....do.....	.....do.....	2.90
Total.....						5.80
31-505705.....	Oct. 1, 1969	Oct. 20, 1969		Jan. 1, 1970 paid on time.....	Apr. 10, 1970	4.92
	Nov. 1, 1969	Dec. 5, 1969		.....do.....	.....do.....	4.92
	Dec. 1, 1969	Dec. 29, 1969		.....do.....	.....do.....	4.92
Total.....						14.76

¹ Collected at time mortgage was brought current.

[Exhibit A-3 (Finding 9)]

MORTGAGORS CHARGED WITH FEES FOR TAX SEARCHES

SPRINGFIELD EQUITIES LTD.,
Jamaica, N.Y., September 21, 1970.

Memo to: Thomas E. Judd, Chief Examiner, F.N.M.A.
From: N. P. Corrello, Mortgage Officer—Springfield Equities Ltd.
Re Yearly Tax Search Charge.

The peculiar billing structures of the various tax collection offices in the New York City metropolitan area require the banking and mortgage servicing institutions located in this area to use the services of outside "Tax Searchers" such as O'Flynn & Verity, Inc.

Their responsibilities include:

(1) Obtaining all tax bills and delivery of same in an orderly fashion within the time required to avoid penalties.

(2) Securing receipted bills and checking the accuracy of their posting by visits to the individual tax offices.

(3) Prompt notification of all discrepancies found and processing of most corrections.

(4) Double checking all Block and Lot numbers and assuming responsibility for penalties charged, etc.

Open tax items represent a "lien" on the property involved and can lead in many areas to "In Rem" proceedings. Loss of interest to both mortgagor and mortgagee may result from such action.

Formal notifications of certain serious liens are never sent to the mortgagee and in many instances are not forwarded by the mortgagors. The price of this vital service has risen in past years and must be turned over to the mortgagor to partially defray the expense.

N. P. CORSELLO.

Exhibit B

FEDERAL NATIONAL MORTGAGE ASSOCIATION, EXAMINATION AND AUDIT
DIVISION—FIELD OFFICE, PHILADELPHIA

Re Springfield Equities, Ltd.

DEFICIENCIES WHICH SERVICER AGREED TO CORRECT

10. REPORT OF FNMA CUSTODIAL ACCOUNT NOT PREPARED CORRECTLY (PART III, SERVICERS GUIDE)

The Servicer has not been properly preparing the FNMA Form 179 (Report of FNMA Custodial Account) in the following respects:

(i) Unapplied payments are included in Column 1 (Deposits for Insurance, Taxes, etc.) instead of Column 6 (Other);

(ii) Insurance Loss Drafts are included in Column 1 instead of Column 5 (Insurance Loss Drafts).

The Servicer apparently was not aware of the requirements for showing unapplied payments and insurance loss drafts separately on the Form 179.

(a) Mr. Louis I. Lerner, Vice President and Mr. Nicasio P. Corsello, Mortgage Officer, stated that the Servicer will report the above items in the proper columns from now on.

11. INCORRECT CUT-OFF DATE USED FOR SINGLE DEBIT REPORTS AND FNMA FORM 179 (SECS. 214 AND 215 SERVICERS GUIDE)

It has been the Servicer's practice to use a cut-off date of as much as one week prior to the 25th of the month, for purposes of reporting to FNMA under the single debit system and preparing the FNMA Form 179 (Report of FNMA Custodial Account). As examples, the following cut-off dates were used in recent months:

Reporting month:	Cut-off date
May.....	5/18/70
June.....	6/18/70
July (7/24/70 used for Form 179).....	7/22/70
August.....	8/19/70

This presented some problems in our reconciliation of the mortgage ledger cards with the Servicer's trial balance at the date of our audit.

Mr. Corsello explained that in order to comply with FNMA's requirement that the Form 253 (Monthly Summary of Remittances) be mailed on the 26th of the month, it was necessary for the Servicer to cut-off earlier. The Servicer uses a service bureau (Financial Services, Inc.) for handling its mortgage accounting work and if the FNMA cut-off date of the 25th is used, it would be impossible for the Servicer to mail the FNMA Form 253 until late in the day on the 27th of the month.

(a) Mr. Lerner agreed to use the established FNMA cut-off date of the 25th, commencing in October, although this will mean that the Form 253 cannot be mailed until the 27th.

12. FNMA CUSTODIAL ACCOUNT USED FOR UNAUTHORIZED PURPOSES (SEC. 204 SERVICERS GUIDE)

Funds collected by the Servicer for payment of life insurance and disability insurance premiums are processed through the FNMA Custodial Account and are included on mortgage ledger cards as part of the mortgagor's escrow funds. The Servicer did not realize that FNMA does not permit such funds to be processed through the Custodial Account.

(a) Mr. Lerner stated that the Servicer will discontinue processing life and disability insurance funds through the FNMA Account.

13. LOAN SERVICE REPORTS NOT PROPERLY PREPARED (PART III SERVICERS GUIDE)

The Servicer has not been showing on the FNMA Form 145 (Loan Service Report) the date that the Notice of Default was filed. Also, for at least 8 Form 145's filed in June, July and August 1970, the Servicer showed that no face-to-face contact was made but did not explain the reason why such a contact was not made.

Mr. Corsello stated that he did not realize that the above information had to be reported.

(a) Mr. Lerner stated that from now on the Servicer will show on the Form 145's the date the Notice of Default was filed, and where no face-to-face contact is made, the reason for the omission in servicing procedure will be shown.

14. UNDULY SEVERE TREATMENT OF DELINQUENT MORTGAGORS

The Servicer uses the following wording in letters written to mortgagors who are delinquent for two monthly installments:

"Our records indicate that you have ignored all our attempts to communicate with you concerning your delinquency. At present your payments are in arrears for the months of (Two months shown). A total of \$ is now outstanding.

"We have been forced to make our attorneys aware of this situation and to instruct them to proceed with a foreclosure action against you on (Date—About 25th of Second Month) in our behalf."

(a) Mr. Lerner stated that the Servicer will discontinue sending to mortgagors, letters threatening actions which the Servicer is not authorized to carry out. Instead the letters will state that if appropriate arrangements are not made to bring the account current, foreclosure action will be recommended to the investor.

15. HAZARD INSURANCE MORTGAGEE CLAUSES NOT ADEQUATE (SEC. 120 SERVICERS GUIDE)

For five of twenty-five hazard insurance policies that we reviewed, the mortgagee clause did not show FNMA, C/o Springfield Equities, Ltd., 88-22 161st St., Jamaica, N.Y. Four of these policies showed the Servicer as the mortgagee and the other one showed the Servicer, Walter E. Heller & Co., and FNMA.

The Servicer had requested endorsements naming FNMA as mortgagee in some cases several months ago, but apparently the insurance agents had not complied with the Servicer's request. The files do not show that follow-up was made to obtain the requested endorsements.

(a) Mr. Corsello stated that in most cases follow-up with insurance agents had been by telephone but no record was made of these efforts. He said that all FNMA insurance policies will be reviewed and endorsements obtained in all cases where FNMA is not named as mortgagee, c/o the Servicer.

16. SIGNED DUPLICATES OF MORTGAGE BONDS IN SERVICER'S FILES

In at least 8 cases the files maintained for individual mortgagors contained one or more signed duplicates of mortgage bonds. In each instance these documents were notarized, but none of these documents were stamped "Copy".

(a) Mr. Lerner stated that the Servicer will review all files and stamp "Copy" on all signed duplicates. He also said that at the time mortgages are submitted to FNMA for purchase, signed duplicates of mortgage bonds will be stamped "Copy".

17. UNAUTHORIZED REFUNDS TO MORTGAGORS AND ANNUAL ANALYSIS OF MONTHLY ESCROW REQUIREMENTS NOT MADE PROPERLY (Sec. 207 Servicers Guide)

As a result of its annual escrow analysis in July 1970, the Servicer refunded excess escrow funds of \$126.60, \$169.00, and \$147.00 to the related mortgagors. In each instance the mortgagor requested that the excess funds be sent to him. The Servicer was not aware that FNMA does not permit the refunds of excess escrow funds.

Also in making the analysis of escrow requirements, the Servicer did not take into consideration the present shortages for certain mortgages. As a result, the new monthly installments are based on disbursements made in the past year, without any provision being made to collect present shortages.

Mr. Corsello stated that he was aware of this situation and had planned to make a more complete analysis of certain accounts, as time permits.

(a) Mr. Lerner stated that from now on the Servicer will not refund excess escrow funds to mortgagors, but instead will apply them in accordance with Sec. 207 of the Guide. He also said that the Servicer's procedures will be changed so that the mortgagors' escrow balances will be taken into consideration at the time an analysis of the account is made.

18. ENDORSEMENT TO FIDELITY BOND NOT OBTAINED AND \$500.00 DEDUCTIBLE CLAUSE INCLUDED IN THE BOND (Sec. 101 Servicers Guide)

The Servicer's fidelity bond did not have an endorsement to provide that FNMA and GNMA be informed if the bond is cancelled for any reason and we found no indication that the insurer had been requested to inform FNMA and GNMA in the event of such cancellation.

In addition, the bond is subject to a \$500.00 deductible for each loss.

(a) During our visit, the Servicer obtained an endorsement to the fidelity bond which provides that FNMA and GNMA be notified promptly if the fidelity bond is cancelled for any reason.

Also during the visit, the Servicer requested FNMA's permission to retain the \$500.00 deductible clause in its bond.

19. FNMA FORM 37 (LETTER AGREEMENT FOR SERVICER'S CUSTODIAL ACCOUNT) NOT PREPARED AND SENT TO FNMA WHEN THE ACCOUNT WAS TRANSFERRED TO ANOTHER BANK (SEC. 204 SERVICERS GUIDE)

The Servicer transferred the FNMA and GNMA Custodial Accounts from the Chase Manhattan Bank to the Valley National Bank of Long Island in May 1969. However, the Servicer did not prepare and present to the new bank for certification a FNMA Form 37 (Letter Agreement for Servicer's Custodial Account).

The Controller's Division wrote to the Servicer on 12/15/69 and requested that a Form 37 be prepared and forwarded to FNMA, but at the time of our visit (9/16/70), this had not been done.

(a) We discussed this with Mr. Lerner, who immediately prepared and executed a Form 37 for both FNMA and GNMA and obtained the bank's certification on each. These have now been furnished to the Regional Office.

APPENDIX TO AUDIT REPORT

MATTERS REFERRED TO US BY REGIONAL PERSONNEL

The Assistant Regional Vice President requested that we review the Servicer's files concerning a fire loss in connection with Loan No. 31-515418 (Kokason and Pack), and investigate the matters referred to in a memorandum dated August 24, 1970 from Mr. Reed, Regional Counsel to Mr. Duncan, Regional Vice President.

(a) Finding No. 4 of our report shows the Servicer's general deficiencies in the reporting and handling of fire losses. Further details concerning the results of our review of the Servicer's handling of the fire loss on the above loan are included in our memorandum of October 6 to Mr. Duncan.

The Regional Controller requested that we discuss with the Servicer, delays in remitting and failure to send the excess escrow funds to FNMA in recent months.

(a) The delay in remitting is the subject of Finding No. 2, and Finding No. 8 concerns the Servicer's failure to remit excess escrow funds to FNMA.

SERVICER'S HANDLING OF DELINQUENCIES

A delinquency report on the Servicer's total portfolio was not available. The Servicer's delinquency ratio at July 25, 1970 was 4.5% on a portfolio of 873 mortgages for FNMA.

Mr. Nicasio Corsello, Mortgage Officer, states that the delinquency procedures for other investors differ from those used for FNMA, as follows: Serious delinquency follow-up is commenced for FNMA during the first month of delinquency, but not until after the 45th day of delinquency for other investors. The Servicer has been successful in reducing its delinquency ratio through the use of off-duty and retired policemen to make house visits to mortgagors.

FEES CHARGED TO MORTGAGORS

Insurance brokers in the New York City area charge mortgagors fees of \$10.00 to \$20.00 for placing hazard insurance through the New York Property Insurance Underwriting Association. When the Servicer acts as the insurance broker, it charges the mortgagor \$10.00.

In cases where there are large insurance losses, the Servicer obtains the services of an outside appraiser to inspect the repairs. The mortgagor is charged the appraiser's fee of \$10.00 to \$20.00.

In connection with the payoff of Loan No. 1-31-505704 (Witherspoon), the Servicer charged the Mortgagor a fee of \$30.00.

Audit Performed by: Thomas E. Judd.

APRIL 11, 1969.

Re Delinquencies.

Mr. H. LAWRENCE ASHER,
President, Springfield Equities, Ltd.,
Jamaica, N.Y.

DEAR MR. ASHER: For several months, your delinquency ratio has been completely unsatisfactory. Even in March, when delinquencies were computed as of the end of the month, your ratio was not reduced to an acceptable level.

This is notification to you that, effective immediately, your Company has been placed on probation for an indefinite period. Unless *immediate and substantial* improvement is shown, we will give serious consideration to suspending your privilege of bidding in the weekly FNMA auctions.

Please acknowledge receipt of this letter.

Sincerely yours,

KEVIN E. KEEGAN,
Regional Vice President.

JUNE 25, 1969.

Re Suspension of FNMA/GNMA selling privileges and extension of probation.

Mr. LAWRENCE ASHER,
President, Springfield Equities Ltd.,
Jamaica, N.Y.

DEAR MR. ASHER: We have completed a review of your Company's reports for the month of May and we find the reports unsatisfactory. Your performance with respect to loan selling and servicing is also inadequate. Additionally, your firm had been placed on probation April 11, 1969, because of your excessive delinquency ratio.

Your inadequate performance and unsatisfactory delinquency ratio have been brought to your attention in the past, and to the attention of Mr. Louis I. Lerner, Vice President, at our meeting of May 12, 1969. At this meeting, Mr. Lerner assured us of immediate and substantial improvement. Reports for the month of May were to receive his personal attention and they were to be complete, accurate, legible, and submitted in a timely manner. Since these conditions have failed to materialize and your Company's performance continues unsatisfactory, we are suspending its selling privileges, effective with the offer period beginning June 30, 1969. We are also extending its probation status to include all operations: selling, servicing, and liquidation.

All contracts outstanding under the Free Market System or under the Special Assistance Functions with FNMA/GNMA will be honored. Mortgages delivered under these contracts will be purchased provided they are delivered with all required documents and acceptable title to FNMA/GNMA.

We regret the necessity of taking these measures and will appreciate your advice with respect to your plans for correcting deficiencies in your operations with FNMA/GNMA. Upon receipt of this information, we will then consider what further action will be taken by this office.

Sincerely yours,

KEVIN E. KEEGAN,
Regional Vice President.

OCTOBER 7, 1969.

Mr. SANFORD ALLINSON,
President, Springfield Equities, Ltd.,
Jamaica, N.Y.

DEAR MR. ALLINSON: We placed your company on probation by letter dated April 11, 1969, because of an unsatisfactory delinquency ratio and an unfavorable trend of performance affecting all of your selling and servicing operations.

On June 25, 1969, we suspended your selling privileges because of your continued unsatisfactory selling and servicing performances. We again reviewed your performance on September 11, 1969, and noted some improvement, but not enough to warrant the termination of probation or the renewal of your selling privileges.

Your September reports reflect a further improvement in your performance, as a result of which we have removed your probationary status and restored your selling privileges. As of October 3, 1969, you are eligible to participate in the Free Market System sections. In taking this action, however, we must caution that your selling and servicing activities will continue to receive our close attention, and the first indication of regression could be grounds for probation and/or a suspension of selling privileges.

Sincerely yours,

K. A. DUNCAN, *Regional Vice President.*

EXHIBIT 7

FNMA documents relating to United Institutional Servicing Corporation

 FNMA
 Rev. 4-5-70

SERVICING QUESTIONNAIRE

 To: FEDERAL NATIONAL MORTGAGE ASSOCIATION
 211 South Broad Street
 Philadelphia, Pa. 19107

Date: February 8, 1971

FIRM NAME, ADDRESS and ZIP CODE:

 United Institutional Servicing Corp.
 25 West 43rd Street
 New York, New York 10036

Phone Number:

212-695-5050

Servicer/Service Code No:

13280-000-6

Area of Operations: New York

Branch Offices and Addresses:

 175 Fulton Avenue
 Hempstead, New York 11550

Office Manager:

Robert Katz, Vice President

 Name and Titles of Principal Officers: Edwin Katz, Chairman of Board; Bernard S. Roth, President
 Warren Light, Vice President; Harold Fisher, Treasurer; Henrietta Schlossberg, Secretary

 Servicing Supervisor (Name and Title):
 Richard Levine, Asst. Treasurer

Person to Contact on Delinquencies:

Mrs. Joan Ketchel

 Person to Contact on Insurance:
 Robert Troglia

Person to Contact on Accounting Reports:

Form 179 - Harold Fisher, Treasurer
All Other Reports - Michael Kelly

Number of Field Men: 5

Full Time: 5

Part Time: 0

Do you service loans for any other FNMA office?

no

Name Region and No. of Loans:

Names and addresses of other investors whom you represent, and the approximate number of mortgages serviced for each (Attach list if you prefer):

See Schedule Attached

CUSTODIAL ACCOUNTS

FNMA

GIRMA

 Name and Address of Bank: Marine Midland Bank - New York
 250 Park Avenue, New York, New York

Same

Highest Dollar Balance last year: \$ 886,356.06

\$ 164,788.22

Date of Highest Balance:

8/25/70

11/25/70

Type and Amount of Fidelity Insurance:

Individual \$ Blanket \$ 700,000.00

Deductible \$ 1,000.00

Cancellation Clause to Notify FNMA:

☒ Yes ☐ No

Name and Address of Carrier:

 Fireman's Insurance Company of Newark, New Jersey
 10 Park Place, Newark, New Jersey

Specify Officers or Employees Excluded from Fidelity Coverage:

None

Do you carry Errors and Omissions Insurance? Yes Amount \$ 1,000,000.

Furnish a copy of your latest audit report or a copy of last financial statement, certified by a Certified Public Accountant or Public Accountant. If you are a state or federally supervised bank or savings and loan association, a printed copy of latest published financial statement is acceptable. Date fiscal year ends: 2/28/71

Are advance notices of mortgage installment payments due mailed to mortgagors? Yes

If so, how many days in advance is the notice sent? 5 Days

What day of the month do you mail notice of delinquency to mortgagors?

First Notice 10

Second Notice 17

Third Notice 25

What day of delinquency do you make personal contact (not by telephone) with your mortgagors regarding delinquencies? After 45 Days

If you service FNMA owned properties on properties consisting of ten or more living units owned by one mortgagor, complete the following schedule:

Date of Mortgage

Location of Property

Section of Act

No. of Loans

No. of Living Units

None

Information compiled by:

2/10/71
DATE212-695-5050
TELEPHONE NUMBER

SIGNATURE Harold Fisher

Treasurer
TITLE

"C" R 1

FNMA Form 128
Rev. 2/11/66

APPROVED FOR

SELLER'S ☒ OR SERVICER'S ☒ RECORD☒ VA ☒ FHA

FOR YEARS 1967-1970

Name United Institutional Servicing Corp. (724) Phone OX 5-5050Address 25 West 43rd St., N.Y., N.Y. 10036Area Served New York StateBranch Offices 175 Fulton Avenue, Hempstead, N.Y. Cf. Mgr. Wm. Keith BERNARD NELSON
S.V.P.Principal Officers Edwin Katz, Ch. of Bd; Alexander S. Levine, Pres.; Bernard S. Roth,
Exec. V.P.; Bernard W. Nelson, S.V.P.; Harold Fisher, Treas.; Henrietta Schlossberg, Sec.;RICHARD LEVINE, ASST. TREAS. Gerald Canavan, V.P.Servicing Supervisor Richard Levine, Servicing ManagerNo. Field Men 255 No. Other Serv. Emps. 411Other Investors Represented: 67-16 Securities - 104 Loans 4/68;
68 City & County Sav. Bk-133; Oneida Sav. Bk. 421; (5961-104 Loans)

Highest Dollar Amount in Custodial Account: \$

\$235,682.42Fidelity Insurance: ☐ Ind. ☒ Blanket ☒ Direct Surety \$ 1,100 \$ 500.00 \$ 500.00

Financial Data:

As At 12/31/66 Assets \$8,879,824.25 Liabilities \$7,879,850.25 Net Worth \$999,974.00 Net Profit (Loss)

As At	Assets	Liabilities	Net Worth	Net Profit (Loss)
<u>12/31/67</u>	<u>13,580,617.10</u>	<u>13,798,959.43</u>	<u>1,481,657.67</u>	<u>143,192.67</u>
<u>12/31/68</u>	<u>18,440,048.66</u>	<u>17,237,432.57</u>	<u>1,202,616.09</u>	<u>200,859.42</u>
<u>12/31/69</u>	<u>18,440,048.66</u>			
<u>12/31/70</u>	<u>13,278,807</u>	<u>11,749,535</u>	<u>1,529,272</u>	<u>246,165</u>

Handling of Delinquencies:

First Notice 8th of 20th Second Notice 25th Third Notice Personal/Personal ContactsForm 301 Signed 2/27/67 Inactive Terminated* Form 302 Signed 2/27/67 Inactive TerminatedP&S Signed TerminatedTriennial Inspection Certificates Rec'd: 12/14/67Field Visits: 6/24/69FNMA Audits 12/15/66Remarks 4/15/67 Service of 5-11-67 Subst. transferred from 0141Cleaning Credit for 1968 Period. (165 12/26/70)due 68 Hamilton delinquency report P&S - 68000 delin" Wm. Sec. 101 for 1968 4/15/69 del. per Servicing Bd." - delinquency for 1968 in (account) del. in file 2/1/68Shabazz - delinquency for 1968 - 4/15/69EX-117 + RICHARD LEVINE with form of 4/15/69 to discuss delinquency5/27/69-Waiver-Sec. 101 Serv. Bd.

Seller # 13280-000-6

"C"

FNMA Form 128
Rev. 2/11/66

APPROVED FOR

☒ VA ☒ FHASELLER'S ☒ OR SERVICER'S ☒ RECORDFOR YEARS 1971 -

Name UNITED INSTITUTIONAL SERVICING CORP. (724) 812-725-5060
 Address 25 West 43rd Street, New York, N.Y. 10036 code NY, N.Y. 10011 Phone NY-5-5050
 Area Served New York State
 Branch Offices 175 Fulton Avenue, Hempstead, N.Y.

Principal Officers Edwin Katz, Chm. of Brd.; Bernard J. Roth, Pres.; Warren Light, V.P.;
Harold Fisher, Treas.; Henrietta Schlossberg, Sec.;

Servicing Supervisor Richard Levine - Asst. Treasurer

No. Field Men 5 No. Other
 Serv. Emps.

Other Investors Represented: Barton Savs & Loan Assoc. - 326; Elec. Workers Benefit
Assoc - 341; Oneida Sav BK. - 327;

Highest Dollar Amount in Custodial Account: F-8/25/108,350 \$ 11/25/72 \$ 104,133.25
 Fidelity Insurance: ☐ Ind. ☒ Blanket ☐ Direct Surety \$ 700 M \$ \$
 Financial Data:

	Assets	Liabilities	Net Worth	Net Profit (Loss)
As At <u>3/28/71</u>	<u>13,273,807</u>	<u>11,749,535</u>	<u>1,524,272</u>	<u>326,655.</u>
<u>3/28/71</u>	<u>16,917,036</u>	<u>14,603,516</u>	<u>2,313,520</u>	<u>369,825</u>

Handling of Delinquencies:

First Notice 10th Second Notice 17th Third Notice 25th Personal Contacts After 45 days
 Form 301 Signed 2/27/67 Inactive Terminated
 Form 302 Signed 2/27/67 Inactive Terminated 7-2-71
 P&S Signed Terminated

Triennial Inspection Certificates Rec'd:

Field Visits: 6/24/69 FNMA Audits 8/25/63 - Not adequate

Remarks As of 12/31/70 report of 7/25/71 showed a 100% loan to
transferred to General B. B.

"G"

United Institution of Savings

DELINQUENT STATUS - COMBINED OPERATIONS

	TOTAL MORTGAGES	IN FORCE- CLOSURE	DEL 1 MO	DEL 2 MO	DEL 3 MO & OVER	TOTAL DEFER	PERCENT DELIN	SERVICING NOTES
Jan. 1967	500	14	38	15	15	81	15.2	Jan. 1967 - 1st
Feb.	500	14	38	15	15	81	15.2	Feb. 1967 - 2nd
March	500	14	38	15	15	81	15.2	March 1967 - 3rd
April	500	14	38	15	15	81	15.2	April 1967 - 4th
May	500	14	38	15	15	81	15.2	May 1967 - 5th
June	500	14	38	15	15	81	15.2	June 1967 - 6th
July	500	14	38	15	15	81	15.2	July 1967 - 7th
Aug.	500	14	38	15	15	81	15.2	Aug. 1967 - 8th
Sept.	500	14	38	15	15	81	15.2	Sept. 1967 - 9th
Oct.	500	14	38	15	15	81	15.2	Oct. 1967 - 10th
Nov.	500	14	38	15	15	81	15.2	Nov. 1967 - 11th
Dec.	500	14	38	15	15	81	15.2	Dec. 1967 - 12th
Jan. 1968	500	14	38	15	15	81	15.2	Jan. 1968 - 1st
Feb.	500	14	38	15	15	81	15.2	Feb. 1968 - 2nd
March	500	14	38	15	15	81	15.2	March 1968 - 3rd
April	500	14	38	15	15	81	15.2	April 1968 - 4th
May	500	14	38	15	15	81	15.2	May 1968 - 5th
June	500	14	38	15	15	81	15.2	June 1968 - 6th
July	500	14	38	15	15	81	15.2	July 1968 - 7th
Aug.	500	14	38	15	15	81	15.2	Aug. 1968 - 8th
Sept.	500	14	38	15	15	81	15.2	Sept. 1968 - 9th
Oct.	500	14	38	15	15	81	15.2	Oct. 1968 - 10th
Nov.	500	14	38	15	15	81	15.2	Nov. 1968 - 11th
Dec.	500	14	38	15	15	81	15.2	Dec. 1968 - 12th
Jan. 1969	500	14	38	15	15	81	15.2	Jan. 1969 - 1st
Feb.	500	14	38	15	15	81	15.2	Feb. 1969 - 2nd
March	500	14	38	15	15	81	15.2	March 1969 - 3rd
April	500	14	38	15	15	81	15.2	April 1969 - 4th
May	500	14	38	15	15	81	15.2	May 1969 - 5th
June	500	14	38	15	15	81	15.2	June 1969 - 6th
July	500	14	38	15	15	81	15.2	July 1969 - 7th
Aug.	500	14	38	15	15	81	15.2	Aug. 1969 - 8th
Sept.	500	14	38	15	15	81	15.2	Sept. 1969 - 9th
Oct.	500	14	38	15	15	81	15.2	Oct. 1969 - 10th
Nov.	500	14	38	15	15	81	15.2	Nov. 1969 - 11th
Dec.	500	14	38	15	15	81	15.2	Dec. 1969 - 12th
Jan. 1970	500	14	38	15	15	81	15.2	Jan. 1970 - 1st
Feb.	500	14	38	15	15	81	15.2	Feb. 1970 - 2nd
March	500	14	38	15	15	81	15.2	March 1970 - 3rd
April	500	14	38	15	15	81	15.2	April 1970 - 4th
May	500	14	38	15	15	81	15.2	May 1970 - 5th
June	500	14	38	15	15	81	15.2	June 1970 - 6th
July	500	14	38	15	15	81	15.2	July 1970 - 7th
Aug.	500	14	38	15	15	81	15.2	Aug. 1970 - 8th
Sept.	500	14	38	15	15	81	15.2	Sept. 1970 - 9th
Oct.	500	14	38	15	15	81	15.2	Oct. 1970 - 10th
Nov.	500	14	38	15	15	81	15.2	Nov. 1970 - 11th
Dec.	500	14	38	15	15	81	15.2	Dec. 1970 - 12th

H. S. L. C.

"G"

DELINQUENCY STATUS - COMBINED OPERATIONS

	TOTAL MORTGAGES	IN FURTHER CLOSURE	DEL. 1 MO	DEL. 2 MO	DEL. 3 MO & OVER	TOTAL DELIN	PERCENT DELIN	SERVICING NOTES
Jan. 1971	6084	410	610	610	300	2000	17.4	
Feb.	6084	410	610	610	300	2000	17.4	
March								
April								
May								
June								
July								
Aug.								
Sept.								
Oct.								
Nov.								
Dec.								
Jan. 19								
Feb.								
March								
April								
May								
June								
July								
Aug.								
Sept.								
Oct.								
Nov.								
Dec.								
Jan. 19								
Feb.								
March								
April								
May								
June								
July								
Aug.								
Sept.								
Oct.								
Nov.								
Dec.								
Jan. 19								
Feb.								
March								
April								
May								
June								
July								
Aug.								
Sept.								
Oct.								
Nov.								
Dec.								

Servicer's Name United Institutional Servicing Corp.

Name of investor:	Number of loans
2248 Teachers Insurance and Annuity Assoc. of America.....	75
2249 The Tremont Savings and Loan Association.....	64
2250 Union Labor Life Insurance Co.....	110
2252 Empire National Bank.....	126
2254 Washington Heights Federal Savings and Loan Association.....	27
2255 Amsterdam Savings Bank.....	249
2256 Manufacturers Hanover Trust Co.....	58
2257 Electrical Workers Benefit Association.....	341
2259 Bank of Gouverneur.....	10
2261 IBEW Local No. 25 Welfare Fund.....	2
2262 Board of Trustees of the National Electrical Contractors Association Pension Benefit Trust Fund.....	23
2263 Auburn Savings Bank.....	102
2264 Amsterdam Federal Savings and Loan Association.....	21
2265 Oneida Savings Bank.....	327
2266 Standard Security Life Insurance Co.....	145
2267 First National Bank of Hancock.....	2
2268 East River Savings Bank.....	63
2269 North Side Savings Bank.....	16
2270 Staten Island Savings Bank.....	178
2272 Syracuse Savings Bank.....	70
2273 Mortgage and Real Estate Department, Chemical Bank, New York Trust Co.....	22
2275 Garden State National Bank.....	12
2279 Cortland Savings Bank.....	23
2281 Farmers and Traders Life Insurance Co.....	5
2286 Hudson City Savings Institution.....	18
2288 Oswego County Savings Bank.....	28
2289 National Commercial Bank and Trust Co. of Plattsburgh.....	11
2293 Savings Bank of Utica.....	58
2295 New York State Employee's Retirement Fund.....	3
2296 Cakebakers Union Retirement Fund.....	5
2297 Polish National Alliance of Brooklyn.....	7
2299 Government National Mortgage Association.....	555
2215 Candy and Confectionery Workers Union Local No. 452 Pen- sion Fund.....	37
2216 Carver Federal Savings and Loan Association.....	62
2217 Columbia Savings and Loan Association.....	46
2218 County Trust Company.....	63
2219 Citizens Savings and Loan Association.....	26
2221 Columbia Banking, Savings and Loan Association.....	32
2222 Lawrence-Cedarhurst Federal Savings and Loan Association.....	96
2223 Barton Savings and Loan Association (Att: Mr. Gerald J. Domenioski, vice president).....	117
2224 Bank of New York.....	76
2226 Continental Assurance Co.....	1
2227 Rome Savings Bank.....	9
2228 Catskill Savings Bank.....	3
2229 Individual Mortgagees and Various Mortgagors.....	38
2230 Federal National Mortgage Association.....	5529
2232 Mechanics Exchange Savings Bank.....	34
2233 Chase Manhattan Bank.....	89
2234 Richard M. Braun—Erie County Savings Bank.....	39
2235 Fidelity Union Trust Co.....	8
2236 Warwick Savings Bank.....	40
2237 First Savings and Loan Association of Bayonne.....	20
2238 Barton Savings and Loan Association.....	15
2239 Kingston Savings Bank.....	18
2240 City and County Savings Bank.....	121
2241 Continental Mortgage Investors.....	29
2243 Mr. Thomas Davis—Investors Central Management Corp.....	5
2242 Barton Savings and Loan Association.....	326
2244 Rhinebeck Savings Bank.....	20
2247 The Equitable Life Assurance Society of the United States.....	209

FEBRUARY 16, 1971.

Mr. EDWIN KATZ,
Chairman of the Board,
United Institutional Servicing Corp.,
New York, N.Y.

DEAR MR. KATZ: Below are listed 12 mortgages on which your company recently recommended "Foreclosure":

Mortgagor	FNMA number	Last paid installment	Original loan amount
Fedrick, Norman	1-31-802680-9	May 1970	\$17,250
Cole, Frank E.	1-31-710930-5	January 1970	19,700
Rowe, William	1-31-802695-2	May 1970	19,350
Casimero, Gonzalez	1-31-805345-0	September 1970	19,250
Wiggins, Joseph	1-31-805341-2	do	19,250
Montanez, Jose	1-31-805011-1	August 1970	20,250
Jones, Karl	1-31-804384-5	July 1970	18,200
Wheeler, John	1-31-802669-1	May 1970	16,100
Davis, John	1-31-805468-5	September 1970	15,200
Lewis, Anthony	1-31-802782-7	May 1970	16,700
Colon, Feliz	1-31-804506-3	August 1970	18,700
Hopkins, Dorothy	1-31-805216-9	September 1970	20,250

This was brought to your attention when you visited our office on February 10, 1971. Not one payment was ever received on any of these loans.

We, therefore, request that you repurchase these mortgages from us. We informed Mr. Brittain in our telephone conversation of Friday, February 12, 1971 that it will be necessary that you remit the funds together with forms 477 and 478 directly to the lockbox.

Inasmuch as FNMA Form 478, "Loan Removal Collection Report", does not provide for computing the discount, please attach a separate schedule showing your calculations.

On seven of these cases, we have already forwarded the "Notes" to your office for referral to field counsel. Please return them immediately. These are indicated in the above list by an asterisk.

The reassignments should be forwarded to this office along with copies of the FNMA Forms 477 and 478 (schedules attached). The FNMA numbers of these loans were given to Mr. Brittain in our telephone conversation.

Sincerely yours,

PHILIP R. NICHOLS, *Loan Representative.*

FEBRUARY 9, 1970.

Mr. EDWIN KATZ,
Chairman of the Board,
United Institutional Servicing Corp.,
New York, N.Y.

DEAR MR. KATZ: This letter will confirm a meeting which was held in our office on February 5, 1970, with you and your personnel.

United Institutional Servicing Corp. was placed on probation as of April 11, 1969, by reason of an unsatisfactory delinquency ratio. Because of continuing high delinquency ratio and unsatisfactory servicing performance, another conference was held on October 31, 1969, at which time we decided that the probation period should be extended.

Your delinquency ratio as of January 31, 1970, reveals some improvement over previous months, but there still remains considerable room for improvement. At our meeting held February 5, we touched on those areas in which your performance has not been acceptable.

We must insist on an immediate and substantial improvement in your selling and servicing operations. Therefore, probation will continue until April 7, 1970, and in the interim, we will continue to exercise very close supervision of your corporation.

Sincerely yours,

K. A. DUNCAN, *Regional Vice President.*

JANUARY 14, 1970.

MR. EDWIN KATZ,
Chairman of the Board, United Institutional Servicing Corp., New York, N.Y.

DEAR MR. KATZ: Our records indicate that you and other members of your corporation visited our office on October 31, 1969, to discuss your performance in the selling and servicing of mortgages sold to FNMA. By reason of the high delinquency (10.4% as of September 30, 1969), it was determined to continue your corporation on a probationary status until January 15, 1970, at which point we expect to see substantial improvement in your overall performance.

We have just reviewed your delinquency reports for the month of December 1969, and we are somewhat disheartened to note the increase in delinquency ratio to 10.6%. It may well be that your increase can be attributed, in some measure, to the intervening holidays. In any event, we decided to extend an additional period of time, until February 5, 1970, to substantially reduce your delinquency.

Please confirm that you and interested members of your staff will be able to meet with us in our office on February 5, 1970, at 10:30 a.m., for the purpose of further reviewing your performance.

Sincerely yours,

JOHN F. CONWAY, *Loan Representative.*

FEDERAL NATIONAL MORTGAGE ASSOCIATION

MEMORANDUM

DECEMBER 23, 1970.

To: File.

From: Loan Representative.

Subject: United Institutional Servicing Corp.

Per prior agreement with Mr. Katz, Chairman of the Board, and Mr. Roth, President, of United Institutional Servicing Corporation, visited this office on Monday, December 21, 1970. The purpose of the meeting was to discuss the continuing poor quality of loan servicing. This is specified in more detail in the attached memorandum to Mr. McCarron.

In attendance at the meeting, in addition to Mr. Katz and Mr. Roth, were Messrs. Duncan, McCarron, Cookson, Greene, Murphy and Nichols.

In essence Mr. Katz volunteered to refrain from bidding in any auction until such time as we feel that their servicing had improved to a satisfactory standard. He further requested that we take no official punitive action for a period of 60 days. Mr. Katz stated that at the end of 60 days they would have shown a marked improvement and, if not, he would make no challenge of whatever action we decided to take. Neither Mr. Duncan or Mr. McCarron were inclined to go along with Mr. Katz's proposal.

Mr. Katz was instructed by Mr. Duncan to furnish us with a letter within 10 days outlining specifically the remedial action planned by UISC. Mr. Katz was informed that upon receipt of this letter, we would make our decision.

At the time of the meeting, Mr. Katz and Mr. Roth, delivered to us long overdue 145 forms. A preliminary review has revealed that the preparation of these forms contain numerous discrepancies, particularly pertaining to "special forbearance".

Mr. Kelly of UISC is scheduled to visit this office on Tuesday, December 22, 1970, to discuss the preparation and deficiencies in more detail. It is our intention to return these forms to Mr. Kelly at this time because of the poor quality of preparation.

PHILIP R. NICHOLS.

UNITED INSTITUTIONAL SERVICING CORP.,
New York, N.Y., December 29, 1970.

MR. KENNETH DUNCAN,
*Regional Vice President,
 Philadelphia, Pa.*

DEAR MR. DUNCAN: At our last conference you asked that we outline changes we intend to institute to bring about a reduction in delinquencies and an improvement in reporting.

1. To bring about a closer supervision of reporting we have named Michael Kelly as Service Manager.

2. We have employed a former co-ordinator of Port of New York Authority to assist in the servicing department.

3. We have completely restaffed our office collection department.

4. We have restaffed and increased our field delinquency men.

5 The field men now work from 1 P.M. to 9 P.M. (except for those inspecting properties) as well as alternate Saturdays and Sundays. This will enable them to have more personal interviews.

6. We have contracted with Fidelity Adjustors, a collection agency which has represented other mortgage companies, to assist in collections.

7. Mr. Bernard Roth and the writer have scheduled daily meetings for the purpose of supervising all of the activities of the collection department.

8. Because of the importance of our relations with FNMA and the value of our servicing, the resources of our company will be made available to correct our present deficiencies.

9. A survey is being made to determine whether it is advantageous for us to establish a collection office in Brooklyn.

United will not bid in the FNMA Auction without your consent and if, at the end of sixty days the reporting procedures do not meet with your approval and if the delinquency ratio has not been materially improved we will request that you transfer the servicing to some mortgage company of your choosing.

We should like to express our appreciation to you for permitting us to offer our future plans.

Sincerely yours,

EDWIN KATZ.

OCTOBER 31, 1969.

LOAN REPRESENTATIVE,
United Institutional Servicing Corp.,
New York, N.Y.

Mr. Edwin Katz, Chairman of the Board, Mr. Richard Levine, Servicing Manager, and Mrs. Henrietta Schlossberg, Secretary, representing United Institutional Servicing Corporation, visited our office today in order to discuss their performance record regarding submissions and servicing of FNMA loans. Messrs. Duncan, Lynch, McCarron, Riley, Judd and Conway attended the meeting on behalf of FNMA.

Mr. Katz discussed their procedure in detail regarding the origination of FHA and VA mortgages which are to be submitted to FNMA for purchase. He further stated that they did not perform any underwriting function but merely forwarded the mortgage application on to either the FHA or the VA. Mr. Katz' philosophy was that it is well worth the risk for the government to provide 19 families with homes who make their regular mortgage payments as against the one that results in foreclosure. Mr. Duncan pointed out that there should be some degree of underwriting and that there are several other special assistance government programs which are available to families who are credit risks.

Mr. McCarron stated that the foreclosure ratio for United Institutional Servicing Corporation was next to the highest for all of our Servicers in the northeastern region. He also observed that the delinquency ratio has shown an improvement over the 16.9% ratio that was recorded for March, 1969.

In analyzing our Form 145, Mr. McCarron noted that a study had been made of these forms which were received in this office for the month of September 1969, and that of the 35 that were received, 18 of them represented mortgagors who had made 5 monthly payments or less. He even pointed out that some had not made any payment at all. Mr. Katz did not offer a new reason for this situation but stated that this was due to their present philosophy concerning originations.

Mr. Conway furnished many examples of Form 145 that were submitted to this office during the month of September, 1969 which indicated that neither a visit to the property or a face to face contact was made before 80 to 90 days of delinquency. He also pointed out that most of these 145's were incomplete.

During the month of September, 1969, 67 cases were referred to the Servicer for foreclosure. During this same month, 13 of these were reinstated. Mr. McCarron stated that this is another example of inadequate underwriting by United Institutional Servicing Corporation.

Mr. Riley discussed the reporting procedure and concluded that there should be more checking and more review of the reports before sending them to FNMA. The reports are usually received on time in this office. Mr. Riley stated that

although we are not experiencing any serious problems regarding reports, he would recommend that they should be reviewed very carefully before being signed by the responsible person.

SUMMARY

Mr. McCarron stated that although there were several instances of inadequate servicing, there is some evidence of a gradual improvement toward reducing their delinquency ratio, and in view of this fact, he would recommend to Mr. Duncan that probation be continued until January 15, 1970. He further recommended that we would make another complete review of their entire operations, and we would discuss the findings with them at that time. Mr. Duncan expressed the hope that Mr. Katz would give further consideration to his present policy towards originating mortgages which are intended for sale to FNMA. He concluded by concurring with Mr. McCarron's recommendation.

JOHN F. CONWAY.

APRIL 23, 1969.

ASSISTANT VICE PRESIDENT,
United Institutional Servicing Corp.,
New York, N.Y.

On Monday afternoon, April 21, Mr. Edwin Katz, Chairman of the Board of United, and Mr. Richard Levine, Servicing Supervisor, called at the office to discuss their delinquency and servicing problems. Miss McKee and Mr. Eckert met with Mr. Levine to discuss the day-to-day operations, and Messrs. Keegan, Reed, McCarron and myself met with Mr. Katz for an overall discussion of his performance.

Mr. Katz was extremely disturbed and concerned about being placed on probation and possible suspension of his bidding privileges unless his delinquency ratio improved. He assured us that he was doing everything possible to reduce delinquencies, and that these were caused primarily by the type of mortgagor.

Most of these delinquents are in the inter-city area, and it is difficult to educate them as to their obligation or even to contact them personally. Most of his outside personnel are afraid to visit certain areas after dark. He has had for some time in his employ a retired lieutenant of the police force, who habitually carries a gun on his rounds, but even he will not make calls after dark. United has just hired another field man and reassigned six solicitors to calling on delinquent accounts in a concerted effort to improve the delinquency picture.

Messrs. Reed and McCarron discussed our difficulty with the New York FHA office in simultaneously transferring property to the FHA at foreclosure sale. Many of these properties are two or more family units, and most are rent controlled. New York City law precludes eviction in rent controlled units, and FHA will not give United an answer until they have inspected each foreclosed property. This frequently takes some time to accomplish. Meanwhile, the referee is insistent that he draw a deed to somebody. Apparently in most instances, it will be necessary to draw the deed to FNMA instead of directly to FHA.

Another problem prevalent in New York City area is the securing of properties after foreclosure sale. It is not enough, according to City law, to merely lock the property and board up the windows. All windows must be securely sealed with brick or cement, which necessitates taking out the window frames. The cost of this runs upward to \$1,000.00, but it is New York City law, and FHA has advised us that they will pay the cost.

In conclusion, Mr. Katz again assured us that every possible step would be taken to improve the delinquency rate.

DECEMBER 20, 1968.

Re FNMA audit.

MR. EDWIN KATZ,
Chairman of the Board,
United Institutional Servicing Corp.,
New York, N.Y.

DEAR MR. KATZ: This will confirm the results of the meeting held in this office on December 16, 1968 on the Association's audit. The findings taken by our auditor are listed on Exhibit A, which is in your possession.

Concerning Finding 8, a waiver of Section 101 of the Servicers Guide is granted in your company's present fidelity coverage, which contains a \$1,000.00 deductible provision.

The serious findings which caused us to classify your records and procedures inadequate are cleared with the following exceptions:

Finding 1, Guy, FNMA No. 31-291703 KK—You agreed to reimburse the Association if we incur a loss not recoverable from FHA resulting from our present foreclosure action.

Findings 2 and 7—You are asked to notify the Association when your review of ledger cards is complete and mortgagors' accounts reimbursed.

Finding 6—Forward a request for approval to retain excess line carriers where premiums were paid, including name of carriers not licensed to do business in New York State or policies contain restricting clauses. Also, letters from mortgagors requesting hazard insurance coverage in excess of our requirements must be placed in the mortgagors' files.

After discussing your solution to clear Finding 9, you decided the procedure initiated will differ from your letter of November 27, 1968; therefore, advise in detail what your procedure will be and when it is put in operation.

A matter which causes us great concern is your unsatisfactory delinquency ratio. We would appreciate your advice on the steps you plan to take with your collection procedures to reduce and maintain the delinquency percentage at an acceptable level.

As you were previously advised, no closings for FHA-GNMA loans will be assigned to your company until there is an overall improvement in your servicing performance.

Sincerely yours,

KEVIN E. KEEGAN, *Agency Manager.*

DECEMBER 19, 1968.

LOAN SUPERVISOR, AUDIT,
*United Institutional Servicing Corp.,
New York, N.Y.*

On Monday, December 16, 1968, a meeting was held in this office to discuss the inadequate rating resulting from the Association's audit.

The following Servicer's officials and Agency personnel attended the meeting:

United Institutional Servicing Corp.

Edwin Katz, Chairman of the Board.

Michael Kelly, Assistant Servicing Manager.

FNMA

Harry F. Bickford, Assistant Agency Manager.

Arthur W. Miller, Agency Director, Examination and Audit Division.

Thomas R. Kingsley, Chief, Accounting Operations Branch.

Theresa M. McKee, Loan Supervisor.

Finding 1—*Inaccurate Certifications That All Matured Mortgage Installments Had Been Paid by the Mortgagors.* The Servicer was advised that it will be required to absorb any foreclosure loss on Guy, FNMA No. 31-291703 KK. On Orta, FNMA No. 31-295224 KK, a current account, no action will be taken as a result of the inaccurate certification. A memo dated December 18, 1968 to the Controller's Division advised of our election to indemnify the Association for the foreclosure loss on FNMA No. 31-291703 KK. Mr. Katz confirmed a procedure is now in effect to prevent recurrence of inaccurate certifications by United Institutional Servicing Corp.

Finding 2—*Tax Penalties Incurred and Charged to Mortgagors and Taxes Erroneously Paid From Mortgagors' Funds.* The Servicer's statement to our auditor and its letter of November 27, 1968 are satisfactory. However, the Agency will request notification when a review of the ledger cards for taxes paid in the past year and refunds to the mortgagors' accounts is accomplished.

Finding 3—*Delays in Reversing NSF Checks;* Finding 4—*Inadequate Control of Disbursements;* and Finding 5—*Improper Handling of Insurance Loss Drafts.* United's statement to our auditor and its letter of November 27, 1968 satisfactorily clear these findings.

Finding 6—*Hazard Insurance Policies Not Handled Properly.* The Servicer's letter of November 27, 1968 advises the Insurance Department of the State of New York now provides for assigned risk. Further, the assigned risk rate is about

the same as the normal rate and considerably less in the premium charged by excess line companies. United Institutional Servicing Corp. will request permission to retain insurance with excess line companies where premiums have been paid, forwarding the name of the carrier and type of policy. When these policies expire renewal of coverage will be placed on an assigned risk basis. Concerning insurance in excess of the unpaid principal balance of the mortgage, subparagraph (v) of the finding, Mr. Katz advised the amount of the insurance coverage requested by the homeowner frequently exceeds the unpaid amount of the mortgage. The Agency requires these requests be in writing and maintained in the mortgagors' files, and the Servicer's officials were advised of this requirement.

Finding 7—*Hazard Insurance Refunds Not Obtained and Mortgagor Erroneously Charged With Insurance Disbursements.* The Servicer's statement to the auditor and its letter of November 27, 1968 are satisfactory. However, the Agency wishes to know when the review is complete and mortgagors' accounts reimbursed, where applicable.

Finding 8—*Endorsement to Fidelity Bond Not Obtained.* United requested a waiver of Section 101 of the Servicer's Guide. The Agency Manager approved the Servicer's fidelity coverage with a \$1,000.00 deductible provision on December 18, 1968, and United will be notified accordingly.

Finding 9—*Checks on FNMA Custodial Account Not Drawn in Date Sequence and Transaction Dates Incorrect.* It was felt United's solution to clear finding 9 would be cumbersome; therefore, the Servicer will advise what arrangements were made with Financial Services to clear this finding and when the procedures were placed in effect.

United was removed from the list of closing agents for FHA-GNMA direct loans.

The unsatisfactory delinquency ratio for FNMA-GNMA loans was also discussed. Mr. Katz will personally investigate the unusually high delinquency percentage.

THERESA MCKEE.

DECEMBER 12, 1968.

Mr. EDWIN KATZ,
Chairman of the Board,
United Institutional Servicing Corp.,
New York, N.Y.

DEAR MR. KATZ: Mr. Keegan is away from the office on business today so I am replying to your letter of December 11, 1968.

A meeting with you and Mr. Levine here in the office at 2:00 p.m. on Monday, December 16, 1968 is satisfactory.

Sincerely yours,

HARRY F. BICKFORD,
Assistant Agency Manager.

DECEMBER 6, 1968.

Re Audit report.

Mr. EDWIN KATZ,
Chairman of the Board,
United Institutional Servicing Corp.,
New York, N.Y.

DEAR MR. KATZ: We acknowledge receipt of your letter of November 27, 1968 outlining corrective actions taken by your company as a result of the Association's audit.

Because of the number and seriousness of the findings taken at the audit, we feel that a personal discussion with you and your operating personnel would be beneficial to both of us. Would you, therefore, please arrange to visit this office and let us know the date and time that you will arrive.

Sincerely yours,

KEVIN E. KEEGAN, *Agency Manager.*

FEDERAL NATIONAL MORTGAGE ASSOCIATION

MEMORANDUM

AUGUST 23, 1971.

To: K. A. Duncan, Regional Vice President—FNMA.
 From: A. W. Miller, Regional Director, Internal Audit—Philadelphia.
 Subject: Audit of Transfer of Servicing.
 From: United Institutional Servicing Corp. New York, N. Y.
 To: Jacksonville National Bank, Jacksonville, Fla.

By memorandum dated February 24, 1971, Mr. Frank W. Pence, Vice President—Mortgage Operations, approved the transfer of servicing of approximately 6,084 mortgages from United Institutional Servicing Corporation, New York, New York, to Jacksonville National Bank, Jacksonville, Florida, effective February 25, 1971.

In a letter dated March 2, 1971, you advised Mr. Edwin Katz, Chairman of the Board, United Institutional Servicing Corporation, of the approval of the transfer, effective at the close of business February 25, 1971, and detailed certain instructions to be completed in processing the transfer.

As shown in Mr. Pence's memorandum, it was originally planned that the Jacksonville National Bank, immediately upon acquiring the servicing portfolio, would use Springfield Equities, Ltd. as an independent agent to service the loans. The above memo indicated that the Jacksonville National Bank would be directly responsible to FNMA under the servicing contract.

At February 25, 1971, the effective date of transfer of servicing, United Institutional Servicing Corp. was servicing 5,495 FNMA mortgages and 553 GNMA mortgages for the Northeastern Regional Office. The unpaid principal balance on the mortgages serviced for FNMA totaled \$106,263,001.32 and for GNMA \$7,708,511.66. In addition, the Servicer was responsible for the administration of \$1,165,316.87 of escrow funds for FNMA and \$144,681.75 for GNMA.

The audit of the transfer began on April 6, 1971 and ended on July 1, 1971, and was performed in conjunction with the audit of transfer of 923 mortgages from Springfield Equities, Ltd., Jamaica, New York, to the Jacksonville National Bank. The deficiencies in the Servicer's records, procedures and/or the transfer are shown in the 20 findings on Attachment #1.

Our audit was performed in accordance with a basic Program of Audit outlined by the Director, Internal Audit. The Program included the reconciliation of the Servicer's cash balance, as shown by the bank statement, with the Servicer's control records and with the aggregate amount of the mortgagors' deposit accounts.

Subsequent to the effective date of transfer (2/25/71), the Jacksonville National Bank changed the original plans whereby Springfield Equities, Ltd., as an independent agent for Jacksonville National Bank, would service the mortgages, and decided that servicing would be done by the Jacksonville National Bank from its main office in Jacksonville, Florida. As a result, during our audit, many of the pertinent records, including mortgage history runs (ledger cards), hazard insurance policies, current tax receipts, and mortgage files, which were needed for the audit were shipped to Jacksonville, Florida. In most cases, we were not given sufficient advance notice that the records were being shipped and would not be available in the Queens Village, New York office the following day. The movement of these records to Jacksonville, Florida and the delay in returning certain records that we needed adversely affected the progress of our audit.

Mortgagors were instructed that commencing May 1, 1971, monthly installments were to be mailed to Jacksonville, Florida. Also, subsequent to April 25, 1971, all accounting functions, including disbursements for taxes, insurance, etc. and remittances to FNMA were to be handled in Florida. All Reports, including Loan Service Reports (FNMA Form 145) are also to be prepared in Florida. A branch office with a small staff in Queens Village, New York, is to be retained mainly for the purpose of follow-up on delinquency and foreclosure cases and inspections of properties, including those for which fire loss funds have been received.

The transferor Servicer (United) had been reporting to FNMA under the Aggregate Exception System (AES) for January and February 1971. Although not included as a finding on Attachment #1, the Jacksonville National Bank did not submit AES reports to FNMA for the months of March or April 1971. We were advised that such Reports were to be prepared and submitted for the month of May by the Florida office.

The 20 findings were discussed with Mr. Charles H. Beason, Vice President, Jacksonville National Bank, and with Mr. Nicasio P. Corsello, Office Manager of Springfield Equities, Ltd., now acting as Agent for Jacksonville National Bank. Findings No. 18, 19 and 20 were cleared during our audit. Mr. Beason stated that in all likelihood, the Jacksonville National Bank will follow our suggestions concerning the clearance of Findings 1 through 17. However, he said he would like to meet with other top officials of the bank, and perhaps with Mr. Katz of United before making a decision concerning the use of a public accountant in the confirmation program outline (Finding No. 4) and in the clearance of some of the other findings, particularly numbers 5, 6 and 7 (NSF checks, advances and taxes).

In discussing the extensive reviews and adjustments required by Findings 5, 6 and 7, all of which involve material amounts of mortgagors' funds, we suggested that these reviews be made by, or under the supervision of a public accountant to the extent deemed necessary for the accountant to furnish FNMA with a statement, that the reviews contemplated by these three findings had been completed and adjustments made to properly charge or credit the applicable mortgagors' accounts.

In our limited review of mortgage files, we noted that for three cases, some of the mortgage origination papers appear to be questionable. These cases will be the subject of a separate memorandum.

We suggest that FNMA have the new Servicer, Jacksonville National Bank, confirm its agreement to clear Findings numbers 1 through 17. In our opinion this should include a statement from the new Servicer that it will obtain the services of a public accountant to supervise the confirmation program and the reviews required by Findings 5, 6 and 7 of Attachment #1, and assurance that FNMA will subsequently be furnished a statement from the public accountant concerning the reviews completed and the results obtained.

We should appreciate receiving copies of correspondence with Mr. Charles H. Beason, Vice President, Jacksonville National Bank, relative to the clearance of the findings. We understand that you will advise the United Institutional Servicing Corporation of the results of the audit.

ARTHUR W. MILLER.

[Attachment No. 1]

United Institutional Servicing Corp. (Transfer of Servicing)

FEDERAL NATIONAL MORTGAGE ASSOCIATION, INTERNAL AUDIT DIVISION—FIELD OFFICE, PHILADELPHIA

DEFICIENCIES WHICH THE SERVICER AGREED TO CORRECT

1. SERVICER'S RECORDS NOT IN AGREEMENT WITH FNMA PRINCIPAL TRIAL BALANCE AT DATE OF TRANSFER

FNMA had furnished United Institutional Servicing Corp. an Aggregate Exception System (AES) principal trial balance for each of the months of January and February 1971, but the Servicer had not reconciled these trial balances to its own trial balances or to the mortgage history runs (ledger cards).

The FNMA principal trial balance at February 25, 1971 (effective date of transfer of servicing) shows a total of \$106,263,001.32, while the Servicer's trial balance at that date shows a total of \$106,367,241.62, or a difference of \$104,240.30.

During our visit, we made a loan-by-loan comparison of the 2/25/71 AES trial balance with the Servicer's trial balance and determined that the above difference was made up of the following items:

Item (1)-----	\$124,748.25
Item (2)-----	1,096.49
Item (3)-----	(18,657.70)
Item (4)-----	(2,944.92)
Item (5)-----	(1.82)
Total-----	104,240.30

Item (1) was the result of the following seven mortgages being included on the Servicer's trial balance but not on the AES trial balance:

<i>Loan No.</i>	<i>Unpaid principal— balance per servicer</i>
131-284322-2	\$19,713.89
131-506679-3	17,514.40
131-507085-9	14,178.29
131-515098-4	16,749.12
131-520949-8	20,184.85
131-800335	18,657.70
131-801259-7	17,750.00
Total	124,748.25

Each of these mortgages, except 131-800335, was coded by the Servicer as being in foreclosure, but FNMA had shown them as being removed (Code 72) on the Exception Update Listing (FMNA Form 476) for January or February 1971. The new Servicer (Jacksonville National Bank) was still showing these mortgages on its principal trial balance at 4/25/71.

Loan No. 131-800335, which was current at 2/25/71 with an unpaid balance of \$18,657.70, is not included on the AES trial balance, but Loan No. 131-800422-7 is included by FNMA with an unpaid balance of \$18,657.70. The Servicer has no record of Loan No. 131-800422-7. We believe there is a mix-up in the loan number between FNMA and the Servicer, and that this should be resolved. (See also Item (3) below.)

Item (2) resulted from 15 mortgages for which the unpaid principal balances shown on the Servicer's records exceeds the balances shown on the AES trial balance by a total of \$1,096.49. The mortgages involved are shown on Exhibit A-1.

Item (3) resulted from Loan No. 131-800422-7 being included on the AES trial balance but not on the Servicer's trial balance. (See also item (1) above concerning Loan No. 131-800335.)

Item (4) resulted from 28 mortgages for which the unpaid principal balances shown on the Servicer's records are less than the balances shown on the AES trial balance by a total of \$2,944.92. The mortgages involved are shown on Exhibit A-1.

Item (5) resulted from 176 mortgages for which the unpaid principal balances shown on the Servicer's records were at variance with the amounts shown on the AES trial balance by either one or two cents. (No further action recommended.)

We reviewed eleven of the specific cases (43) shown on Exhibit A-1 and are showing below the reasons for differences between FNMA's and the Servicer's records:

(A) Loan No. 131-249975-5

The Servicer applied a curtailment of \$954.01 on 1/7/71 and a curtailment of \$430.80 on 2/8/71. Neither of these curtailments was processed by FNMA because of an incorrect due date reported by the Servicer. As a result of the above curtailments, the Servicer applied \$70.68 as the principal portion of the 2/1/71 installment, while FNMA credited only \$66.51 to principal (difference of \$4.17). Adding \$430.80, \$954.01 and \$4.17 accounts for the difference of \$1,388.98. The Jacksonville National Bank made an adjustment of \$5.63 (credit to principal) on 3/8/71, which does not appear to be justified.

(B) Loan No. 131-265961-6

On the Phase II data submitted to FNMA at 12/25/70, the Servicer reported the 2/1/71 installment as paid. The mortgagor paid the 3/1/71 installment 1/4/71 but the Form 470 submitted to FNMA 1/25/71 reported that the 2/1/71 installment had been prepaid during January (it should have been the 3/1/71 installment). This transaction was rejected by FNMA. Also, the mortgagor paid the 4/1/71 installment 2/1/71, which the Servicer reported to FNMA 2/25/71. This transaction was rejected because the 3/1/71 installment had not been recorded as paid on the FNMA records. Adding the principal portion of the 3/1/71 installment (\$37.58) and 4/1 installment (\$37.76) accounts for the difference of \$75.34.

(C) Loan No. 131-283967-0

This mortgage was in foreclosure prior to 12/17/70 but was brought current (including attorney's fees) on 12/17/70. The mortgagor paid the 1/1/71 installment

on 1/25/71, but FNMA did not credit this installment because it had been coded the mortgage as being in foreclosure with a last paid installment of 12/1/70. The Servicer reported the mortgage delinquent for the 2/1/71 installment at 2/25/71. FNMA rejected this delinquency and showed 1/1/71 and 2/1/71 as unpaid.

The principal portion of the 1/1/71 installment (credited by the Servicer) is \$32.29, accounting for the difference.

(D) Loan No. 131-287370-5

The difference of \$23.77 is represented by the principal portion of the 10/1/70 installment which was credited by the Servicer on 1/7/71.

The Servicer had recommended foreclosure 12/31/70 and FNMA approved foreclosure 1/13/71. Form 470 (Remittance Exceptions) at 1/25/71 reported the mortgage as delinquent for the 11/1/70 and subsequent installments but FNMA did not credit the 10/1/70 installment because the mortgage was in foreclosure at 1/25/71 and 2/25/71.

(E) The differences on Loan Numbers 131-292007-7, 131-301393-6 and 131-301575-2 resulted from FNMA's rejection of two prepaid installments for each mortgage.

(F) Loan No. 131-303228-1

The Servicer's records show that at 12/25/70 this mortgage was paid through 12/1/70, with an unpaid balance of \$17,038.71. However, FNMA's records at 1/25/71 show this mortgage to be in foreclosure. (Last paid installment date of 12/1/70.)

The mortgagor paid his 1/1/71 installment in January and the 2/1/71 installment in February but the Exception Update Listing for 2/25/71 shows that FNMA created delinquencies for the 1/1 and 2/1/71 installments because the mortgage is in foreclosure.

The difference of \$53.09 is made up of the principal portion of the 1/1 and 2/1/71 installments.

(G) Loan No. 131-291554-1

The Phase II data 12/25/70 showed the last paid installment to be 10/1/70 and an unpaid balance of \$15,074.88.

At 1/25/71, the Servicer reported that it had reversed the 9/1 and 10/1/70 installments (Code 25) but showed the incorrect principal balances after the reversals. FNMA rejected the reversals and showed at 1/25/71 that the last paid installment was 10/1/70.

The mortgagor paid the 9/1/70 installment 2/24/71 and the Servicer reported the mortgage delinquent for the 10/1/70 and subsequent installments at 2/25/71. Because the FNMA records showed 10/1/70 installment as already paid, it rejected the Servicer's report that the mortgagor owed the 10/1/70 installment and FNMA updated the mortgage to show it current at 2/25/71.

The difference of \$136.62 is made up of the principal portion of the 10/1/70 through 2/1/71 installments.

(H) Loan No. 131-512021-4

The Phase II data 12/25/70 showed the last paid installment to be 11/1/70 and an unpaid balance of \$19,929.17.

The difference of \$117.17 resulted from FNMA's updating the mortgage to show it current at 2/25/71 whereas the Servicer's records show the mortgage delinquent for the 8/1/70 and subsequent installments.

This came about through the Servicer's reversal of the 9/1, 10/1, and 11/1/70 installments on 1/25/71. The 1/25/71 Form 470 reporting reversals of installments (Code 25) was rejected by FNMA because the unpaid principal balances were reported incorrectly. In addition, the Servicer reversed the 8/1/70 installment in February 1971 and reported that the mortgagor owed 8/1/70 and subsequent installments. Because of the above rejection, FNMA updated the mortgage to show it current at 2/25/71.

(I) Loan No. 131-710917-3

On the Phase II data submitted to FNMA at 12/25/70, the Servicer reported an unpaid balance of \$18,599.97 and the last paid installment as 6/1/70. However, on 2/23/71, the Servicer reversed the 6/1/70 installment, which had been credited in error to this mortgage (Loan No. 131-710915-9 was credited 2/23/71), and

reported a Code 25 transaction (reversal) on the Form 470. FNMA rejected this transaction because the mortgage is in foreclosure.

The difference of \$14.56 represents the principal portion of the 6/1/70 installment.

(a) It is suggested that the Jacksonville National Bank take the following actions:

(1) Take appropriate steps to remove the six foreclosed mortgages from its portfolio (Item 1).

(2) Contact the Loan Accounting Division concerning Loan Numbers 131-800335 and 131-800422-7 (Item 3).

(3) Take appropriate action to resolve all differences shown by Items (2) and (4) (Exhibit A-1). In some cases, it may be necessary to contact the Loan Accounting Division to bring the reporting up to date.

We also suggest that the Jacksonville National Bank request a monthly trial balance from FNMA and compare it with their records (monthly), until such time as all differences are corrected.

2. SERVICER'S RECORDS NOT IN AGREEMENT WITH GNMA PRINCIPAL TRIAL BALANCE AT DATE OF TRANSFER

United had been furnished an Aggregate Exception System (AES) principal trial balance for GNMA mortgages for each of the months of January and February 1971, but it had not reconciled these trial balances to its own trial balances or to the mortgage history runs (ledger cards).

The GNMA principal trial balance at February 25, 1971 (effective date of transfer of servicing) shows a total of \$7,708,511.66, while the Servicer's trial balance at that date shows a total of \$7,700,603.97, or a difference of \$7,907.69.

During our visit, we made a loan-by-loan comparison of the 2/25/71 AES trial balance with the Servicer's trial balance and determined that the above difference was made up of the following items:

Item (1)-----	\$8, 031. 53
Item (2)-----	(74. 20)
Item (3)-----	(49. 82)
Item (4)-----	. 18
Total-----	7, 907. 69

Item (1) resulted from Loan No. 731-062417-8 being included on the AES trial balance but not on the Servicer's trial balance. This mortgage was paid in full 12/31/70 and was properly reported to FNMA on a Cash Transmittal Advice in January 1971. However, FNMA did not apply the funds, apparently because of some question concerning the FNMA Loan Removal Collection Report (FNMA Form 478).

We contacted the Washington Office on 4/27/71, and were later advised that the Loan Accounting Division would take appropriate action to remove this mortgage from the GNMA records.

Item (2) resulted from the Servicer's reversal of the 12/1/70 and 1/1/71 installments for Loan No. 731-063378-9 in February 1971. These transactions were rejected by FNMA because the Servicer did not report the unpaid principal balance correctly after the reversals.

Item (3) is similar to item (2), with the reversals of the 12/1/70 and 1/1/71 installments for Loan No. 731-071545-8 being rejected by FNMA.

Item (4) resulted from 17 mortgages for which the unpaid principal balance shown on the Servicer's records was either one cent (16 cases) or two cents (one case) less than that shown on the AES trial balance. (No further action is recommended.)

(a) It is suggested that the Jacksonville National Bank take appropriate action to (i) Resolve the differences shown in Items (2) and (3), and (ii) Request a GNMA monthly trial balance from FNMA and compare it with their records (monthly) until such time as all differences are corrected.

3. MORTGAGE INSTALLMENTS CREDITED TO WRONG ACCOUNT

The mortgage installments received by United Institutional Servicing Corp for Loan No. 131-509681-5 (Brynildsen) for the months of July 1970 through

February 1971, were incorrectly credited to Loan No. 131-509684-1 (Jones), resulting in prepayments of installments. These misapplications are as follows:

Payments made by Brynildsen			Credited in error to Jones	
Due date	Date paid	Amount	Amount	Credit of installment due
July 1, 1970	July 16, 1970	\$232.00	¹ \$232.00	
Aug. 1, 1970	Aug. 12, 1970	244.90	244.90	July 1, 1970
Sept. 1, 1970	Sept. 4, 1970	262.20	² 262.20	Sept. 1, 1970
Oct. 1, 1970	Oct. 9, 1970	244.00	244.00	Nov. 1, 1970
Nov. 1, 1970	Nov. 3, 1970	244.00	244.00	Jan. 1, 1971
Dec. 1, 1970	Dec. 4, 1970	244.00	244.00	Mar. 1, 1971
Jan. 1, 1971	Jan. 11, 1971	244.00	244.00	May 1, 1971
February 1, 1971	Feb. 5, 1971	244.00	244.00	July 1, 1971

¹ Credited as unapplied payment and still held as unapplied funds at April 6, 1971.

² Includes \$18.20 collected from Brynildsen as back late charges on the Jones mortgage. (No late charges were due on the Brynildsen mortgage.)

As a result of the misapplication of payments made by Brynildsen, his mortgage was seven months delinquent at 12/31/70 at which time United Institutional Servicing Corp. filed a FNMA Form 145 (Loan Service Report) and recommended foreclosure. The Servicer also filed an FHA Form 2068 (Notice of Default) on 12/31/70.

The Servicer files do not show that any face-to-face contacts or telephone contacts were ever made with Brynildsen, at which time it might have been discovered that payments were being made but had been misapplied. The Servicer visited the property 12/15/70 and found the property occupied by a tenant, who would give no information.

The Servicer sent a letter to Brynildsen (at the property) on 1/6/71 and the letter was returned by the Post Office marked "addressee Unknown".

FNMA authorized foreclosure of the Brynildsen mortgage on 1/13/71 and the Servicer sent the case to Field Counsel on 1/22/71.

After foreclosure action was started by Field Counsel, the mortgagor (Brynildsen) who had been making his monthly payments on time obtained a lawyer, David Klibanow, to represent him. On 4/2/71, the attorney submitted a letter (copy attached) and copies of paid checks representing payments made by Brynildsen. The attorney requested that the FNMA Field Counsel execute and forward to him a discontinuance of the foreclosure action.

On 3/29/71, Springfield Equities, Ltd., Agent for Jacksonville National Bank, the transferee Servicer, wrote a letter to the FNMA Field Counsel instructing him to cease foreclosure action on the Brynildsen mortgage.

In addition to the misapplication of funds, as shown above, there is a question concerning the 6/1/70 installment on the Brynildsen mortgage. According to the letter from the mortgagor's attorney dated 4/2/71, Brynildsen is unable to locate his check dated 6/1/70 constituting payment of the 6/1/70 installment. The attorney sent a photostatic copy of the mortgagor's check book on which was entered check number 190 dated 6/1/70 for \$232.00, payable to United Institutional. We found no record of this check being credited on the records of United Institutional Servicing Corp.

At 4/30/71, the new Servicer was still holding Brynildsen's check dated 3/1/71 in the amount of \$244.00 representing the 3/1/71 installment.

(a) It is suggested that the following actions be taken by the Jacksonville National Bank:

(i) Make a determination as to whether Brynildsen's check #190 for \$232.00 dated 6/1/70, was ever received by United Institutional and deposited by them. (Inasmuch as the mortgagor is unable to find the "Paid" check, perhaps a copy of his bank statement for June 1970 might be obtained, in order to establish that the check was actually charged to his account.) If it is determined that Brynildsen paid the 6/1/70 installment, the amount of \$232.00 should be obtained from United Institutional for credit to the mortgagor.

(ii) Make appropriate application of the \$232.00 credited as unapplied payments on 7/16/70 and still unapplied at 4/6/71.

(iii) Reapply each of the eight installments paid by Brynildsen during the months of July 1970 through February 1971, which were erroneously credited to Loan No. 31-509684 (Jones).

(iv) If not already done, deposit Brynildsen's \$244.00 check dated 3/1/71 in the Jacksonville National Bank's FNMA Custodial Account for credit to the mortgagor.

(v) Obtain from United Institutional the \$18.20 in late charges which were erroneously collected from Brynildsen on 9/4/70, and which were retained by United Institutional. These funds should then be credited to the mortgagor's (Brynildsen) escrow account.

(vi) Determine from Field Counsel the amount of legal fees and costs incurred in handling the foreclosure work on the Brynildsen mortgage, and obtain this amount from United Institutional.

(vii) After appropriate adjustments have been made, notify FNMA and FHA that the account has been brought current.

4. MORTGAGORS' PAYMENTS NOT APPLIED OR APPLIED TO WRONG MORTGAGE

In our limited reviews and in our observations of mortgagors' complaints in the offices of the Springfield Equities, Ltd., Agent for the Jacksonville National Bank, we concluded that in many instances during the past year, the United Institutional Servicing Corporation has misapplied mortgagors' monthly installments.

In addition to the mortgage shown in Finding No. 3 (Loan No. 131-509681-5), the following are examples of misapplication of funds received by the Servicer:

(A) *Loan No. 131-506703-4 (Elijah)*

During our audit, the mortgagor visited the office and furnished photostatic copies of checks in support of his contention that his mortgage was current. The ledger card shows that the checks dated in December 1970 and February 1971 had been credited to the mortgagor. However, the check dated 1/12/71 in the amount of \$203.00 (paid by the bank 1/22/71) had not been credited to this mortgagor.

At the date of the above visit to the office (4/30/71), an employee of the Jacksonville National Bank suggested that the mortgagor visit the offices of United and show them copies of the checks and a copy of the mortgage ledger card which was given to him.

At 6/21/71, we had no further information as to whether United had returned \$203.00 to the mortgagor.

(B) *Loan No. 131-288602-5 (Berry); Loan No. 131-288603-7 (Marshall)*

The mortgage ledger card for Loan No. 131-288602-5 shows that on 1/6/71 the mortgagor paid the 11/1 and 12/1 installments of \$284.00 each (by check #477 dated 12/30/70). This check was returned NSF (date returned not available).

Through error, the Servicer reversed the 1/1 and 2/1/71 installments of \$255.00 each for Loan No. 131-288603-7. Subsequently, this mortgagor paid his 3/1 and 4/1/71 installments, which were then credited as the 1/1 and 2/1 installments.

In April when the new Servicer (Jacksonville National Bank) contacted Marshall (Loan No. 131-288603-7) concerning his delinquency, he presented paid checks to show that his mortgage should be current, and it was discovered that the reversals should have been against Loan No. 131-288602-5 (Berry) and in the amount of \$284.00 each instead of \$255.00 each.

Jacksonville National Bank made correcting entries 4/13/71 to properly credit Loan No. 131-288603-7 for two installments and to reverse two installments for Loan No. 131-288602-5. However, the charges to Loan No. 131-288602-5 should have been \$284.00 for each month, but Jacksonville National Bank charged only \$255.00 for each of the two months (the charge to the mortgagor's escrow account was a total of \$58.00 less than it should have been.)

Mrs. Irma Horowitz, Accountant for Springfield Equities, Ltd., Agent, agreed to advise the Jacksonville National Bank to charge \$58.00 to the escrow account of Loan No. 131-288602-5 and credit this amount to the United Institutional Servicing Corporation.

(C) *Loan No. 131-508928-8 (Winslow)*

A Loan Service Report dated 10/12/70 states that the mortgagor paid the August and September 1970 installments on 8/15/70 by check #270 in the amount of \$357.54, and promised the 10/1 installment on 10/19/70.

A FNMA Form 145 (Loan Service Report) dated 11/30/70 shows that the mortgage was three months delinquent and that the mortgagor claims that he

only owes one installment. Subsequent reports also show that the mortgagor claims he owes two less installments than the Servicer's records show.

The mortgage ledger card does not show that the mortgagor was credited with the \$357.54 that he paid on 8/15/70. The mortgagor complained to Springfield Equities, Ltd., Agent for the Jacksonville National Bank, on April 8, 1971, who referred him to United Institutional Servicing Corporation. The latter gave the mortgagor a check for \$357.54 on April 8, 1971 (explanation on the check shows "Servicing Loss"). The check was endorsed by the mortgagor and given to Springfield Equities, Ltd. 4/13/71 for credit to the mortgagor's account.

(D) Loan No. 131-507589-7 (Nader)

According to the mortgage ledger card, the mortgagor was one month delinquent at 2/25/71, effective date of transfer of servicing. However, the mortgagor kept insisting that he was current, and during our visit came to the offices of Springfield Equities, Ltd., with copies of "paid" checks showing that his mortgage should be current.

Our review of the account showed that the mortgagor's check #135 dated 2/1/70 for \$624.20 had not been fully credited to the mortgagor. Only \$305.00 was credited as the 2/1/70 installment and \$14.20 as late charges. When this check was subsequently returned NSF, the Servicer reversed two installments (only one had been credited).

The mortgagor was sent to United Institutional Servicing Corporation, who issued him a check for \$305.00 (explanation on the check shows "Servicing Loss"). The mortgagor gave the check to Springfield Equities for credit to his mortgage.

(E) Loan No. 131-505863-1 (Lee)

On 8/13/70 the mortgage was delinquent for the 5/1/50 and subsequent installments. At that time the mortgagor paid \$235.00 which the Servicer erroneously credited to principal instead of a regular installment (regular installment was \$239.00 instead of \$235.00).

At the time of our visit 4/13/71, Springfield Equities was holding a Certified check for \$243.00 dated 4/7/71 and a Money Order for \$243.00 dated 3/5/71 (monthly installment is now \$243.00).

If the 8/13/70 principal curtailment were properly applied as the 12/1/70 installment and the above funds that are being held were applied as the 1/1 and 2/1/71 installments, the mortgagor would only be delinquent for the 3/1 and 4/1/71 installments.

(F) Loan No. 131-511669-1 (Wiggins)

On 7/16/70 the mortgagor was credited \$219.00, which according to United Institutional Servicing Corporation should have been credited to a mortgage owned by another investor. The \$219.00 was credited as the 7/1/70 installment (\$177.00), with the additional \$42.00 being credited to this mortgagor's escrow account.

United Institutional Servicing Corporation has requested Jacksonville National Bank to reverse the above erroneous application of 7/16/70 and to forward a check for \$219.00 to United.

(G) Loan No. 31-501552

On April 26, 1971, United Institutional Servicing Corporation wrote to Springfield Equities, Ltd. to advise them that a check dated 11/9/70 in the amount of \$207.00 had been credited to FNMA Loan No. 31-501552 in error. They requested that one installment for this mortgage be reversed and that a check for \$207.00 be forwarded to United so that the account of another investor could be properly credited.

Our review of Loan No. 31-501552 disclosed that no credit of \$207.00 is shown on the mortgage ledger card, and that this mortgage was closed out by foreclosure on November 3, 1970, six days before the above application was supposedly made.

We advised Jacksonville National Bank not to comply with United's request for a check for \$207.00 unless additional proof is furnished.

(a) It is suggested that the Jacksonville National Bank take the following actions:

(1) Follow-up with the mortgagor (131-506703-4) to see if he received a refund of \$203.00 from United (Item A).

(2) If not already done, charge \$58.00 to the escrow account of Loan No. 131-288602-5 and credit this amount to United (Item B).

(3) Determine that Loan No. 131-508928-8 was properly credited with the \$357.54 check and Loan No. 131-507589-7 with the \$305.00 check (Items C and D).

(4) For Loan No. 131-505863-1, reapply the 8/13/70 principal curtailment as a monthly installment and deposit the Certified Check (\$243.00) and Money Order (\$243.00) for credit as monthly installments (Item E).

(5) Reverse the 7/1/70 erroneous application of \$219.00 to Loan No. 131-511669-1 and forward a check to United for that amount (Item F).

(6) Contact United concerning its 4/26/71 request regarding Loan No. 31-501552 (Item G.)

(7) Make arrangements with its public accounting firm to confirm the mortgage principal balance and the last paid installment for all mortgages that are presently prepaid or delinquent (excluding foreclosure cases).

(8) The public accounting firm should advise FNMA when the confirmation program has been completed and of the results obtained. The Jacksonville National Bank should advise FNMA when the appropriate adjustments have been made for the cases shown above, as well as for any other cases disclosed in the confirmation program.

5. NSF CHECKS ON HAND THAT HAVE NOT BEEN REVERSED AND NSF CHECKS NOT HANDLED PROPERLY

Subsequent to the effective date of transfer (2/25/71), United Institutional Servicing Corporation transmitted to Springfield Equities, Ltd. (Agent for Jacksonville National Bank) 109 NSF checks for FNMA mortgages and 11 NSF checks for GNMA mortgages.

According to the listing that accompanied the checks, the total NSF checks for FNMA was \$26,776.30 and for GNMA \$2,619.88.

The above listing was received in April 1971 and included many checks that should have been reversed by United from two to five months earlier (checks were reported NSF as far back as October 1970 but not reversed by April 1971).

In our test of some of the above checks, we noted the following deficiencies:

(1) For at least eight of the checks that were included on the listings, United had already reversed the entries and recovered the amount of the checks from the FNMA Custodial Account. These, as well as any other items of a similar nature, should be deleted from the listing and not included in any reimbursement to United.

The eight cases involved are:

Loan No.	Amount	Date reversed by United
731-061634-1.....	\$171.36	February 25, 1971.
131-501069-1.....	168.00	Do.
131-806527-1.....	1 370.00	Do.
731-062675-0.....	1 158.08	February 1971.
731-069502-4.....	1 181.00	February 25, 1971.
731-066516-0.....	180.00	Do.
131-287674-5.....	1 266.00	February 1971.
131-284331-0.....	1 188.00	Do.

¹ In addition, these checks that had already been reversed by United were also reversed by Jacksonville National Bank after transfer of servicing, resulting in overcharges to the mortgagors.

(2) On 2/25/71, United withdrew from the FNMA Custodial Account \$2,967.22 to cover 14 NSF checks on FNMA mortgages and \$531.36 from the GNMA Custodial Account to cover three NSF checks on GNMA mortgages. However, instead of reversing a monthly installment (which had been credited at the time the check was originally received), United withdrew the entire amount of the NSF check from the related mortgagor's escrow funds. The mortgages involved are shown on Exhibit A-2.

As a result of handling the NSF checks in this manner, United retained the servicing fees and any late charges that it had collected on the installments that should have been reversed. For the seven cases that we reviewed, the Servicer thus retained approximately \$52.00 in servicing fees and \$6.60 in late charges which it could not have had, if the NSF checks had been handled properly.

(3) At 4/23/71, the Jacksonville National Bank had not reversed the entries for many of the NSF checks; and for at least two reversals that were made, the amounts reversed on the records do not agree with the checks, as follows:

Loan No.	Amount of check	Total reversed	Difference
131-285340-6.....	\$267.00	\$267.24	\$0.24
131-507575-6.....	860.50	450.50	410.00

(4) For Loan No. 131-506372-7, United listed an NSF check for \$348.84. We were unable to find this check and furthermore this mortgage was paid-in-full to United, prior to transfer of servicing.

(5) For the following two mortgages, NSF checks were sent to the Jacksonville National Bank but were not included on the listing sent by United:

Loan No.:	Amount
131-713333-2.....	\$246.00
131-716354-5.....	213.18

We found no evidence that these items had been reversed by United.

(6) For Loan No. 131-503802-1 (Edwards), the mortgagor's check #492 dated 12/2/70 for \$958.16 was credited by United on 12/10/70 as four monthly installments and three late charges. This check was returned by the bank as NSF and according to the mortgage ledger card, United reversed three monthly installments (total \$708.00) in January 1971 but should have reversed four installments.

This NSF check was not included in the listing of NSF checks for which United claimed reimbursement from Jacksonville, but was sent along with the other checks. In March 1971, Springfield Equities, Ltd., Agent for Jacksonville National Bank erroneously reversed four monthly installments and three late charges (total \$958.16). At 4/23/71, no adjusting entries had been made by Springfield Equities, Ltd. to credit the mortgagor with a net of \$708.00, representing three monthly installments that should not have been reversed.

(7) For Loan No. 731-061636-5 (Frazier), the mortgagor's NSF check for \$382.00 was not reversed by United prior to transfer of servicing. On 3/18/71, Springfield Equities, Ltd., Agent, reversed one monthly installment of \$191.00, but at 4/23/71 the other installment of \$191.00 had not been reversed. (Apparently the Service Bureau had rejected the reversal of one of the installments on 3/18/71.)

(8) For Loan No. 131-526370-5 (Rivera), the mortgagor's check number 114 dated 12/11/70 for \$442.00 was applied as the 10/1 and 11/1/70 installments. This check was returned NSF on or about 12/30/70 and United reversed one installment (\$221.00) between 1/15/71 and 2/17/71.

United forwarded this check with the listing and requested reimbursement for \$221.00 (the proper amount) instead of the amount of the check. However, in April 1971, the Jacksonville National Bank reversed two monthly installments of \$221.00 each, while only one should have been reversed.

We found no evidence to show that the mortgagor has been subsequently credited with the installment that was erroneously reversed.

(9) For Loan No. 131-244186-3, the mortgagor's undated check number 317, for \$504.90 was applied as three monthly installments. This check was returned NSF, and was included in the listing sent by United. The Jacksonville National Bank reversed one installment in March and one installment in April 1971, but at 4/23/71, the third installment had not been reversed.

(10) For Loan No. 131-260253-4, United sent two NSF checks, one for \$179.00 and the other \$358.00. At 4/23/71, the Jacksonville National Bank had reversed two installments of \$179.00 each but had not reversed the third installment of \$179.00.

(11) For Loan No. 131-716354-5, the mortgagor's NSF check was reversed by Springfield Equities, Ltd., Agent for the Jacksonville National Bank, in March 1971. The 3/1/71 installment to principal (\$25.75) and interest \$(127.22) was reversed. However, when the next installment was received 4/22/71, the Service Bureau incorrectly allocated the payment of \$25.91 to principal and \$127.06 to interest, as if the above reversal had not been made.

(a) It is suggested that the Jacksonville National Bank take the following actions:

(i) Make a complete review of all NSF checks listed by United and determine the extent to which any of these checks may already have been charged back by United on the mortgage ledger cards. Prepare a schedule of items already charged back by United, in order to delete such amounts from the amount for which is claiming reimbursement. (Items (1) and (4).)

(ii) Prepare a schedule of all NSF checks charged back by the Jacksonville National Bank, and in cases where these represent duplication of reversals already made by United (Item 1 of the finding), appropriate adjustments should be made to the mortgagor's account. In cases where checks have not been charged back, this should be done. (Item (3)).

(iii) For the NSF items charged back against mortgagors' escrow accounts (Item (2)), reverse the charge-backs and properly reverse a monthly installment. Consideration may want to be given to recovering from United, the amounts of servicing fees and late charges retained by United, to which it is not entitled.

(iv) Make appropriate adjustments of mortgagors' accounts to correct errors reported in Items (6), (8) and (11) of the findings.

(v) Reverse additional installments shown in Items (7), (9) and (10) of the finding.

(vi) Reimburse United for NSF checks properly charged back against the mortgagors' accounts by the Jacksonville National Bank. Reimbursement should not be for the amount claimed by United (the amount of the NSF check) but should be for the amount of the check less service charges and late charges, which United had already retained at the time the check was originally deposited and credited.

This reimbursement should include all NSF checks received from United that were properly charged back by the Jacksonville National Bank, whether included on the listing by United or not, for example, the two NSF checks shown in Item (5) above.

(vii) Advise FNMA when the above reviews have been completed and appropriate adjustments made.

6. INADEQUATE RECORDS MAINTAINED CONCERNING ESCROW ADVANCES MADE BY UNITED INSTITUTIONAL SERVICING CORPORATION AND ADVANCES RECEIVED FROM FNMA

In connection with the transfer of servicing, United Institutional Servicing Corp. prepared and submitted to the Jacksonville National Bank a listing of outstanding advances due United from individual mortgagors, together with a separate FNMA Form 77 (Miscellaneous Disbursement Voucher) covering each mortgage. There were 460 FNMA mortgages listed, totaling \$130,893.32 and 27 GNMA mortgages totaling \$11,922.41.

The Jacksonville National Bank reimbursed United \$142,818.11 by a check dated 3/15/71. (The amount was \$2.38 more than the combined totals of the above mentioned lists.)

In our very limited test, we noted the following material deficiencies in the Servicer's handling of escrow advances:

(1) For the following five mortgages (all in foreclosure or acquired), the Servicer claimed reimbursement from Jacksonville National Bank for escrow advances to which it was not entitled:

Loan No.	Amount overclaimed	Comments
67900.....	\$313.55	Servicer had recovered from FNMA.
71700.....	297.83	Advance included twice on listing.
292994.....	250.21	Do.
710920.....	49.93	Servicer had recovered from FNMA.
711772.....	50.43	Do.

(2) The Servicer was unable to furnish the Jacksonville National Bank with a listing of outstanding advances owed to FNMA and GNMA. The Servicer has not maintained adequate records of such advances for the past several months prior to the transfer.

In our review of the records maintained by the FNMA Regional Office, we noted that at 2/28/71, there were outstanding advances on 383 FNMA mortgages, with the total amount being approximately \$349,000.00. For GNMA the Regional Office records at 2/28/71 show outstanding advances for nine mortgages, totaling approximately \$2,500.00.

(3) Financial Services, Inc. (F.S.I.), the service bureau used by United, furnished the Jacksonville National Bank with a listing of outstanding advances due from mortgagors at 2/25/71. This listing was run 3/12/71 and showed 2,224 individual advances for FNMA mortgagors, totaling \$360,406.56 and 104 individual advances for GNMA mortgagors totaling \$10,682.02. (Several different advances were listed for the same mortgage in many cases.)

Our test review of this listing disclosed that it is incomplete and inaccurate and that therefore, the Jacksonville National Bank should not establish its records from information on the listing, without first verifying it. For example, we found numerous cases where FNMA advances were not shown on the listing.

Also reimbursement for advances (total \$4,077.88) was requested from Jacksonville for at least nine GNMA mortgages, that were not shown on the F.S.I. listing.

In addition there were outstanding advances for at least eleven FNMA mortgages and seven GNMA mortgages shown on the F.S.I. listing that were not included on the request for reimbursement sent to Jacksonville.

(4) At 2/28/71, United prepared a schedule showing 140 FNMA mortgages for which the amount of advances recovered from the mortgagors exceeded the amount of advances by a total of \$21,430.42. The mortgages involved are shown on Exhibit A-3, and many of these are mortgages for which FNMA has outstanding advances.

United also prepared a similar schedule for GNMA, on which were shown 13 mortgages for which the amount of advances recovered from mortgagors exceeded the amount of advances by a total of \$1,259.26. These mortgages are also shown on Exhibit A-3.

For the mortgages that we reviewed, we were unable to substantiate that United was entitled to the funds that it received in excess of advances made.

(5) On 2/23/71, United withdrew \$11,659.07 from the FNMA Custodial Account as reimbursement of 161 advances it had made (involving 122 mortgages). In a test of these, we found that for Loan No. 131-258171-6, United recovered \$366.19, although this amount was included in advances it had previously obtained from FNMA. Also for this mortgage, United's records show that it recovered \$366.19 more than it advanced.

Also for Loan No. 131-251303-2 the Servicer recovered \$50.00, and for Loan No. 131-272645-7 it recovered \$66.47. For these two mortgages, the recoveries exceeded amounts advanced by \$69.21 and \$77.85 respectively. (See also Item (4) above.)

(6) Also at 2/28/71, United prepared a schedule of outstanding advances that it was charging off as a loss. The list showed 219 FNMA mortgages totaling \$20,134.87 and 22 GNMA mortgages totaling \$2,075.00.

For the cases that we reviewed, we could not determine the reason why United has not recovered its advances from the mortgagor or from the Jacksonville National Bank.

(7) For Loan No. 131-800488-7 (Diaz), United advanced the following funds:

Date	Amount	Purpose.
Oct. 27, 1970.....	\$96.94	To pay taxes.
Jan. 5, 1971.....	414.00	To pay hazard insurance.

FNMA advanced \$96.94 to the Servicer on 11/24/70 to reimburse it for its advance of 10/27/70. United did not claim reimbursement from the Jacksonville National Bank for its advance of \$414.00 but charged-off this amount as a loss. The Jacksonville National Bank withdrew the following amounts from the mortgagor's escrow funds, presumably as repayment of advances it had made:

Date:	Amount
Mar. 24, 1971.....	\$211.00
Apr. 12, 1971.....	396.88
Total.....	607.88

However, since United had not claimed any reimbursement on this mortgage and Jacksonville National Bank had made no advances, no reimbursement was due it.

(a) It is suggested that the Jacksonville National Bank take the following actions:

(i) Obtain from United Institutional Servicing Corp. a copy of the schedule showing all outstanding advances (both debit and credit balances) that were charged off 2/28/71. (Items (4) and (6)).

(ii) Obtain from United a copy of its subsidiary record cards showing advances for each of the mortgages shown on the schedule of charge-offs (Item (1) above) and on the schedule of advances for which Jacksonville reimbursed United (total \$142,818.11).

(iii) For each subsidiary record obtained, review the mortgage ledger cards and determine the amount of advances made by United, but not recovered by it at 2/25/71.

(iv) Request that the Northeastern Regional Office of FNMA furnish it with a complete listing of outstanding advances owed FNMA and GNMA at 2/28/71. This listing should show Loan Number, date, and amount of each unpaid advance. This listing should be used in setting up servicing records for Jacksonville and it also should be used in determining what advances were properly claimed by United from Jacksonville. (Item (2).)

(v) If not already reviewed, the mortgage ledger cards should be reviewed for all mortgages shown on the F.S.I. listing mentioned in Item (3) of the finding and a determination should be made concerning the status of advances on each case.

(vi) In the above reviews, a schedule should be prepared listing advances for which United erroneously claimed reimbursement from Jacksonville, including the five cases shown in Item (1) of this finding. The total of this schedule should be recovered from United.

(vii) Investigate all cases shown on Exhibit A-3 and where it is established that credit balances that were charged off represent overcharges to mortgagors, a schedule should be prepared and reimbursement claimed from United. (Item (4).)

(viii) Review all mortgages involved in the \$11,659.07 (Item (5)) which United withdrew from the FNMA Account by check no. 11967 dated 2/23/71 and determine whether funds were actually due United. If they were not, the funds should be recovered from United for appropriate credit to the mortgagor or reimbursement to FNMA.

(ix) Investigate debit balances charged off 2/28/71 and prepare a schedule of items for which United is entitled to reimbursement. (See Item (6) of the finding.)

(x) For Loan No. 131-800488-7 shown in Item (7) of the findings, Jacksonville National Bank should redeposit \$607.88 of its own funds in the FNMA Custodial Account, representing advances that it recovered in error. Of this amount, \$96.94 should be disbursed to FNMA as repayment of its advance, \$414.00 should be credited to United as repayment of its advance that was charged off 2/28/71, and the remaining \$96.94 belongs in the mortgagor's escrow account.

(xi) Review all advances recovered by Jacksonville since the date of transfer, to determine whether such recoveries were proper. If funds were not due Jacksonville, appropriate adjustments should be made.

(xii) Advise FNMA when the above reviews and adjustments have been completed to properly charge or credit the applicable mortgagors' accounts.

7. TAX PAYMENTS ERRONEOUSLY CHARGED TO MORTGAGORS

In a very limited test, we noted that tax payments totaling \$5,465.07 had been erroneously charged to the following ten mortgagors during the past two years:

(A) *Loan No. 131-516715-7 (Velasquez)*

This mortgage was originated in 1969, with the first installment due 9/1/69. In addition to the tax payments that were properly charged to this mortgage, the following taxes were charged in error:

Date paid	Amount	Purpose per ledger card
Oct. 13, 1969	\$173.03	City tax.
Jan. 15, 1970	173.03	Do.
Apr. 27, 1970	173.03	Do.
Total	519.09	

The mortgage file shows that United Institutional Servicing Corp. wrote to the mortgagor's attorney 5/5/70 and advised him that the escrow shortage had

occurred because an incorrect real estate tax had been charged to the mortgagor's escrow account. He was told that this would be adjusted as soon as the bill was received from New York City.

Also on 7/9/70, United advised the mortgagor that he had been charged \$173.03 twice, to cover the 1969-70 second and third quarter City Tax on a property in Bronx County, New York (Mortgagor's property is in Kings County, New York). He was also told that United had applied for a \$346.06 refund from the City.

The mortgage edger card does not show that any of the above erroneous charges had been recovered for credit to the mortgagor. At 4/23/71, the mortgage was current and the balance in the mortgagor's escrow account was \$13.59. At that time there were outstanding advances of \$203.76 due United and there were unpaid tax items totaling \$387.46, representing an escrow shortage of at least \$590.00.

(B) Loan No. 731-070287-7 (Avery)

The property covered by this mortgage is located in Seldon, New York, which is not included in one of the boroughs comprising New York City. However, the following New York City taxes have been erroneously charged to this account since 11/1/68:

Date paid	Amount	Explanation
Nov. 1, 1968	\$144.87	City tax.
Jan. 23, 1969	72.44	City—1 quarter.
Apr. 30, 1969	72.43	City Tax.
Aug. 29, 1969	76.13	Do.
Oct. 17, 1969	76.13	Do.
Jan. 27, 1970	76.13	Do.
Jan. 28, 1970	76.00	1970 W. S.
Apr. 15, 1970	76.13	4th quarter taxes.
Aug. 26, 1970	81.16	City tax.
Oct. 26, 1970	81.16	Do.
Jan. 25, 1971	81.16	Do.
Total	913.74	

At 2/28/71, there was a balance of \$104.21 in the mortgagor's escrow account and an outstanding advance of \$466.84, which United charged off as a loss instead of requesting reimbursement from the Jacksonville National Bank.

(C) Loan No. 731-070284-1 (Thomas)

The Servicer disbursed \$318.56 for the 2nd half 1969-70 town taxes on 6/3/69 and disbursed the same amount again on 6/20/69. It was necessary for the Servicer to advance \$243.80 to cover the overdraft that would have been credited by the second disbursement.

The files show that United wrote to the mortgagor on 6/5/70 and advised him that a duplicate tax payment had been made and that they had applied for a refund, which would be credited to the mortgagor's account when received. The mortgagor wrote to Springfield Equities on 3/2/71 and complained that his account had never been credited for the duplicate tax payment.

The mortgagor was not satisfied with the reply from Springfield Equities, so he wrote to the State Director of FHA on 3/31/71 as well as another letter to Springfield Equities. No further action had been taken at 4/23/71.

(D) Loan No. 131-519322-3 (Seon)

The correct legal description of the property, as shown on the Survey and on the Tax Search made by the title company, is Kings County, New York, Section 15, Block 4629, Lot 15. However, the Certificate and Report of Title issued by the title company erroneously shows Block 4621 (instead of 4629). The Policy of Title Insurance appears to be satisfactory.

Partly as a result of the above, United has been paying and charging this mortgage for city taxes on both Block 4621, Lot 15 and Block 4629, Lot 15 since the mortgage was originated in July 1969. The erroneous charges are as follows:

Date	Amount	Period covered
November 4, 1969	\$290.69	2d quarter 1969-70.
January 22, 1970	290.69	3d quarter 1970-70.
April 27, 1970	290.69	4th quarter 1969-70.
February 4, 1971	309.90	1st quarter 1970-71.
Total	1,181.97	

This mortgagor's monthly escrow payment was changed from \$84.47 to \$164.47 effective 6/1/70 but in spite of this, there was a material shortage in the account at 2/25/71 (escrow balance was \$424.66 with unpaid taxes totalling \$714.98.)

(E) Loan No. 131-524196-5 (Jones)

The mortgaged property is located in Yonkers, New York. We were advised by Mrs. Margaret Kaufmann, who was in charge of the tax department for Springfield Equities, Ltd., Agent for the Jacksonville National Bank, that City taxes are payable twice a year and the bill for State and County taxes four times a year. The mortgage ledger card shows the following taxes charged to the mortgagor since the mortgage was originated in September 1969:

Date	Amount	Description per ledger card
Dec. 4, 1969.....	\$18.42	City tax.
Jan. 28, 1970.....	271.83	City tax.,
Apr. 15, 1970.....	271.82	4th Quarter.
June 22, 1970.....	271.82	3d Quarter Cty.
Sept. 23, 1970.....	271.82	4th Quarter Cty.
Feb. 4, 1971.....	218.03	Tax.
Do.....	73.70	County tax.
Feb. 11, 1971.....	218.03	Do.
Do.....	73.70	Do.
Apr. 2, 1971.....	218.03	Do.
Do.....	73.69	State City Tax.

We were unable to obtain tax receipts for any of the above items and no one at Springfield Equities was able to furnish us any information concerning which of the above charges were proper. Mrs. Kaufmann did say that it is possible that the 1970 taxes were paid by United on 2/4/71 and 2/11/71 and that the four charges during 1970 (total of \$1,087.29) appear to have been made in error.

At 2/25/71, the mortgagor's escrow balance was \$7.71, which was at least \$300.00 short of current requirements.

(F) Loan No. 131-515097-2 (Seabrook)

The Servicer disbursed the 3rd and 4th quarter 1969-70 City taxes totaling \$359.90 on 2/16/70. On 4/27/70, the Servicer again disbursed \$359.90 as the 3rd and 4th quarter 1969-70 City taxes.

The files and mortgage ledger card do not show that the mortgagor's account has been credited for the \$359.90 charged to him in error. At 4/23/71, there was no balance in the mortgagor's escrow account and there were outstanding advances of \$805.36. (Mortgage is current.)

(G) Loan No. 131-511669-1 (Wiggins)

The mortgage ledger card shows that School Taxes of \$362.24 were erroneously charged to this mortgagor on 10/2/69. The mortgaged property is located in the Bronx, New York. We were advised that there are no school taxes, except as included in the quarterly City tax bills.

The mortgagor's escrow balance was \$23.14 at 2/25/71, which is materially short of what it should have been.

(H) Loan No. 131-301884-5 (McLeod)

The mortgage ledger card shows that the Servicer paid the 1st Quarter 1970-71 City taxes of \$132.81 twice, once on 8/26/70 and again on 10/2/70. (2nd Quarter taxes were paid 10/26/70 in amount of \$132.81.)

Also the Servicer charged the mortgagor \$128.13 on 1/25/71 as the 1971 water and sewer charges, and again charged him \$80.00 on 2/11/71 for water and sewer charges (\$80.00 was disbursed 1/26/70 for 1970 water and sewer).

The ledger card does not show that over-disbursements of \$132.81 and \$80.00 have been credited to the mortgagor.

(I) Loan No. 131-519008-7 (Martinez)

On 1/25/71, the Servicer charged the mortgagor's account \$166.56 for water and sewer and \$153.65 for City tax. On 2/4/71, exactly the same charges were made to the mortgagor's account.

The files and ledger card show no refunds credited to the mortgagor's escrow account.

(J) Loan No. 131-231702-4 (Smith)

The 3rd and 4th Quarter City taxes for 1969-70 in the amount of \$86.22 each were properly paid and the 1st, 2nd and 3rd quarter City taxes for 1970-71 in the amount of \$91.69 each were properly paid by United. However, the mortgage ledger card shows that on 2/4/71, the mortgagor was charged \$93.13 and \$96.13 for City taxes. It appears that these were charged in error. (Jacksonville National Bank disbursed the 4th quarter City tax in the amount of \$91.69 on 4/22/71.)

(a) It is suggested that the Jacksonville National Bank take the following actions concerning the erroneous charges of \$5,275.81 to mortgagors' escrow accounts:

(i) Review each of the above items as soon as possible to establish that erroneous charges have been made to mortgagors. In the case of Loan No. 131-524196-5 (Jones), this will require contacting the taxing authority in Yonkers, New York to determine what taxes were properly chargeable to the mortgagor.

(ii) Take immediate action to reimburse the mortgagors' escrow accounts for taxes erroneously charged to them. The question of recovery of duplicate payments from taxing authorities is a matter to be settled between the Jacksonville National Bank and United. (In the case of Loan No. 731-070287-7, reimbursement to the mortgagor could be off-set in part by the outstanding advances of \$466.84.)

(iii) Review all FNMA and GNMA mortgage ledger cards for 1969, 1970 and 1971 (to 2/25/71) in order to discover other cases where United has erroneously charged mortgagors for water and sewer or taxes. Where such evidence is found, the mortgage ledger card should also be reviewed for prior years for additional overcharges.

In all cases where the mortgagor has been overcharged, the Jacksonville National Bank should reimburse the mortgagor's account.

(iv) Advise FNMA when the review of all ledger cards has been completed and mortgagors' accounts have been reimbursed.

J. UNPAID TAXES AT DATE OF TRANSFER

In our initial review of the United Institutional Servicing Corp.'s mortgage ledger cards, we noted five mortgages for which the 3rd and/or 4th Quarter 1969-70 city taxes had not been paid, and five other mortgages for which the 1st or 2nd Quarter 1970-71 city taxes had not been paid. We discussed these with the tax department of Springfield Equities, Ltd., Agent for Jacksonville National Bank and discovered that at 4/13/71, they were holding at least 173 tax bills that should have been paid by United prior to 1/31/71.

As a result of the numerous cases of unpaid taxes and the incomplete tax records furnished by United, the Jacksonville National Bank employed the services of O'Flynn and Verity, Tax Searchers, to search tax records and furnish a listing of all unpaid taxes on the FNMA and GNMA mortgages that were serviced by United prior to 2/25/71. O'Flynn and Verity subsequently furnished listings, showing unpaid tax items as of 2/28/71. The summary of these listings is shown below:

Taxing authority	Number of unpaid tax items	Amount
Kings County, N.Y.-----	4, 175	\$467, 002. 40
Bronx County, N.Y.-----	622	108, 692. 83
Queens County, N.Y.-----	286	19, 170. 74
New York County, N.Y.-----	15	2, 451. 04
Richmond County, N.Y.-----	5	510. 03
Other, New York-----	54	7, 589. 23
Totals-----	5, 157	605, 436. 27

Most of the unpaid items were for 2nd and 3rd Quarter city taxes for 1970-71 (Penalty dates were 10/31/70 and 1/31/71 respectively), but there were also several unpaid items for previous quarters.

In addition, we noted that the listing of unpaid tax items prepared by O'Flynn and Verity included the following four items which had been charged to the related mortgagor's escrow account at an earlier date:

Loan No.	Due date of payment	Date paid per ledger card	Amount
131-515097-2	Apr. 1, 1969	Jan. 17, 1969	\$171.21
	Aug. 1, 1970	Aug. 31, 1970	191.84
	Oct. 1, 1970	Oct. 29, 1970	191.84
131-506903-2	Jan. 1, 1971	Jan. 22, 1971	183.15

¹ List of unpaid taxes shows \$122.48.

The above cases, which we noted in a limited test, indicate that either the taxing authority did not properly credit the payments received or charges were made by United without disbursing the funds to the taxing authority.

(a) It is suggested that the Jacksonville National Bank take appropriate action to pay all open tax items appearing on the listings furnished by O'Flynn and Verity. The penalties involved should not be charged to the mortgagors but should be paid by the Jacksonville National Bank, with the question of liability for the penalties to be settled later between the Jacksonville National Bank and United.

It is also suggested that all unpaid tax items shown on the O'Flynn and Verity listing be compared with the mortgage ledger cards to see whether these taxes were previously charged to the mortgagor, as was the case for the four items shown above. For these four unpaid tax items, as well as for any other unpaid items discovered in the review to have been charged to the mortgagor, the Jacksonville National Bank should immediately reimburse the mortgagor's account for these erroneous charges.

9. TAX RECEIPTS NOT FILED AND NOT AFFORDED ADEQUATE FIRE PROTECTION

At the time of transfer of servicing, United Institutional Servicing Corporation had not filed the water and sewer and tax receipts in such a manner that made it possible to find one without making a thorough search through cardboard boxes containing thousands of other tax receipts. The cardboard boxes were delivered to Springfield Equities, Ltd., Agent for the Jacksonville National Bank, and included water and sewer receipts for at least 1969, 1970 and 1971 and tax receipts for 1967-68 and subsequent years.

In our audit, we were unable to find any of the water and sewer or tax receipts that we had elected for review, although it is possible the receipts may have been included among the thousands of receipts in the various cartons.

In addition, at the time of our visit, adequate fire protection was not afforded since the cardboard cartons were open and many tax receipts were in small groups on top of file cabinets.

(a) It is suggested that the Jacksonville National Bank segregate and file all water and sewer and tax receipts in some manner, so that it would be possible to find a given one in a reasonable amount of time.

It is also suggested that adequate fire protection be arranged for these receipts.

10. DELAYS IN APPLYING UNAPPLIED FUNDS

At the effective date of transfer (2/25/71), United Institutional Servicing Corp., was holding \$26,073.70 in the FNMA Custodial Account as unapplied payments for 425 different mortgagors, and \$2,154.72 in the GNMA Custodial Account as unapplied payments for 44 different mortgagors.

We reviewed 15 of the FNMA mortgages, having a total of \$2,735.32 in unapplied payments, and found that for the following eight mortgages, unapplied funds had been on hand for up to seven months, but apparently no action had been taken by United Institutional to either collect sufficient additional funds from the mortgagors to apply a full installment or return the funds to the mortgagors:

FNMA loan No.	Balance in unapplied payments, Feb. 25, 1971	Date funds received	Last paid installment	Regular in- stallment
131-502422-6	\$175.00	July 17, 1970	Jan. 1, 1971	\$195
131-300428-4	154.76	Dec. 15, 1970, Jan. 4 and Feb. 16, 1971	do	162
131-305864-9	128.00	Aug. 16, 1970	Feb. 1, 1971	132
131-506893-5	242.70	July 16, 1970, and Nov. 12, 1970	Jan. 1, 1971	273
131-303507-5	173.80	Aug. 31 to Nov. 30, 1970	Dec. 1, 1970	180
131-520447-4	188.18	Oct. 23, 1970, to Jan. 11, 1971	do	197
131-700569-0	201.73	Dec. 22, 1970 and Feb. 5, 1971	Nov. 1, 1970	207
131-704813-5	85.99	Jan. 20 and Feb. 3, 1971	do	108

The Jacksonville National Bank had taken no action to apply the unapplied funds on these eight mortgages at 3/25/71.

For the other seven cases that we reviewed, funds were received for two just prior to transfer, the Jacksonville National Bank properly applied the funds for two mortgages in March 1971, and three mortgages were in foreclosure.

(a) It is suggested that the Jacksonville National Bank review the mortgages for which unapplied funds were received from United, and that for those mortgages that are not in foreclosure, appropriate action be taken to either collect sufficient additional funds from the mortgagors to apply a full installment or return the unapplied funds to the mortgagors.

1. HAZARD INSURANCE POLICIES NOT FOUND AND DUPLICATE COVERAGE OBTAINED

In our limited review of hazard insurance policies, we noted the following deficiencies:

(i) In many cases there was no hazard insurance policy found in the files furnished by United. In discussing this with Mr. Donald Wrenn of the Whalen & Wrenn Insurance Agency, he stated that they had found at least 600 cases where no insurance policy was found.

(ii) Springfield Equities, Ltd., Agent for the Jacksonville National Bank, had arranged with the above mentioned insurance agency to help with a review of the insurance coverage, when it was discovered that there were no policies in many cases. However, instead of checking the mortgage ledger cards to see if United had charged the mortgagor for insurance, Whalen & Wrenn ordered new policies in each instance where a policy was not received from United or the policy that was received from United had expired. It is estimated that Whalen & Wrenn wrote approximately 600 new policies.

We noted that for at least three mortgages (Loan No. 131-807325-4, 131-282853-0 and 131-806499-2), United had obtained insurance coverage and charged the mortgagor's account but the policy was not in the file. For these three, Whalen & Wrenn also obtained insurance coverage and Jacksonville National Bank charged the mortgagor's account, resulting in duplicate coverage. We discussed these cases with Mr. Nicasio Corselo, Office Manager for Springfield Equities, Ltd. and Mr. Wrenn, and were advised that in the last few days it had been discovered that numerous other cases of duplicate coverage had been noted. We were also advised that appropriate action would be taken to cancel the coverage placed by Whalen & Wrenn, in the cases of duplicate coverage, and refunds of full premiums would be obtained for credit to mortgagors.

All hazard insurance policies were shipped to Jacksonville, Florida on April 22, 1971, before any further reviews could be completed by us or by Whalen & Wrenn.

(iii) Springfield Equities, Ltd., Agent had requested endorsements for all hazard insurance policies to show the name of the mortgagee to be FNMA, c/o Jacksonville National Bank, but at the date the insurance policies were shipped to Jacksonville Florida, endorsements had not been received and attached to the related policies in most cases.

(a) It is suggested that the Jacksonville National Bank make a complete review of all hazard insurance coverage placed since 2/25/71 (date of transfer of servicing) and determine that United had not charged the mortgagor for insurance within the past year. In cases where duplicate coverage is indicated, appropriate action should be taken to cancel the most recent policy and to obtain a full refund of the premium for credit to the mortgagor.

It is also suggested that the Jacksonville National Bank ascertain that there is an adequate hazard insurance policy in force for each FNMA and GNMA mortgage and that the mortgagee clause properly names FNMA or the Jacksonville National Bank, 47 W. Forsyth St., Jacksonville, Fla., as the first lienor.

12. MATERIAL SHORTAGES IN MORTGAGORS' DEPOSIT ACCOUNT BALANCES

In our review of mortgage ledger cards on a test basis, we noted several cases where the mortgagor's escrow balance is materially short of current needs. Also at the date of transfer of servicing, United claimed reimbursement from the Jacksonville National Bank for outstanding advances on 232 mortgages that were not in foreclosure (a majority of them were current), totaling approximately \$41,650.00. Many of these advances had been outstanding for an extended period of time, but United had apparently not increased the monthly installments.

(a) It is suggested that the Jacksonville National Bank make an escrow analysis for all FNMA and GNMA mortgages as soon as possible, and increase the mortgagor's monthly installments, where necessary, in order to accumulate sufficient escrow funds over the next twelve months (or less) to repay outstanding advances and take care of current tax and insurance bills.

13. CHECKS DRAWN BY UNITED INSTITUTIONAL SERVICING CORP. THAT HAD BEEN OUTSTANDING FOR AN EXTENDED PERIOD OF TIME AT APRIL 23, 1971

Exhibit A-4 shows 16 FNMA checks totaling \$1,756.49 and 2 GNMA checks totaling \$168.88 which had been drawn by United prior to or shortly after the effective date of transfer (2/25/71) which were still outstanding at 4/23/71. As shown on the Exhibit, nine of these checks for FNMA and two for GNMA had been outstanding for approximately one year or more, and we found no indication of follow-up being made by United.

In addition to the outstanding checks, there was one other check (FNMA) for \$112.00 that United had drawn to I. Nagelberg Co. 1/30/69 for hazard insurance on Loan No. 131-289455-3. This check had been cancelled by United 8/5/69 and the mortgagor's account had been credited. However, subsequent to the date of transfer of servicing, the above mentioned check was discovered by personnel of Springfield Equities, Ltd., and was endorsed by them for deposit to the FNMA Custodial Account on 4/6/71. The mortgagor's escrow account was again credited with \$112.00.

As a result of the above items, the United Institutional Servicing Corp. Custodial Account, FNMA, showed a balance of \$1,644.49 at 4/23/71, which was made up of the following:

Outstanding Checks	\$1, 756. 49
Less: Cancelled Check Paid by Bank	112. 00
Balance per Bank Statement	1, 644. 49

The United Institutional Servicing Corp. Custodial Account, GNMA showed a balance of \$168.88 at 4/23/71, which was made up of the two outstanding checks shown on Exhibit A-4.

(a) It is suggested that the Jacksonville National Bank take the following actions:

(i) Determine whether check numbers 12052 and 12056 were received from United and deposited in the FNMA Account for credit to the related mortgagors (see Exhibit A-4). It should contact United if these checks were not received.

(ii) Obtain from United a copy of the FNMA and GNMA Bank statements for May and June 1971, as well as a copy of each check debited on these statements.

(iii) Request United to stop payment on all outstanding checks and remit to Jacksonville the balance shown on the FNMA and GNMA bank statements at 6/25/71, thus closing out these accounts. These funds should then be credited to the related mortgagors, as shown on Exhibit A-4.

(iv) In the case of the refunds on the two paid-in-full mortgages, request that United furnish the last known address for Loan No. 31-506372 so that an attempt may be made to refund the \$55.69 to that mortgagor. If the mortgagor cannot be found, the \$55.69 and the \$.48 for Loan No. 31-243718 should be remitted to FNMA.

(v) If appropriate disposition of the \$111.88 for Loan No. 31-70291 cannot be made (this mortgage is no longer in the GNMA portfolio), the funds should be remitted to GNMA.

14. HAZARD INSURANCE LOSS DRAFTS NOT PROPERLY HANDLED

At the date of transfer of servicing (2/25/71), United Institutional Servicing Corp. was holding in the FNMA Custodial Account at least \$177,515.21 representing insurance loss funds. Of this amount \$165,750.37 was reported in Column 5 (Insurance Loss Drafts) of the FNMA Form 179 (Report of FNMA Custodial Account) and the other \$11,764.84 was reported in Column 1 (Deposits for Insurance, Taxes, etc.) as escrow funds. The above funds resulted from fire losses on 23 FNMA properties, with several of the insurance checks having been received several months ago.

For example on Loan No. 131-293889-2 (Liddell), which was current at 2/25/71, insurance loss proceeds of \$9,000.00 had been received by United 6/25/70. The Servicer disbursed the \$900.00 insurance adjustor's fee on 6/30/70 but the files do not show that any further action had been taken by United to inspect the property or release the funds. The files show that repairs were completed in December 1970.

Also for Loan No. 131-527418-2 (Lewis), insurance loss funds of \$4,613.29 were received 12/23/70 (loss in July 1970) but the files do not show that United took any further action after requesting an inspection by FHA on 1/20/71. A bill from the insurance adjustor for \$576.66 was received in November 1970 but had not been paid by United at 2/25/71.

In addition to the above two examples, numerous mortgagors and/or contractors visited the offices of Springfield Equities, Ltd. during our audit and complained of the material delays on the part of United in releasing insurance loss proceeds.

(a) We discussed at least three of the cases with Mr. Corsello and the mortgagor or contractor and advised Mr. Corsello of the procedures to be followed in expediting the release of funds.

Concerning Loan No. 131-293889-2 shown above, Springfield Equities, Ltd. wrote to FHA on 5/24/71 and requested that an inspection be made and a compliance inspection report be sent to Springfield Equities, Ltd. FHA inspected the property 5/25/71 and requested that a letter be obtained from the Town of Babylon certifying that structural repairs are satisfactory. This request was sent to the contractor 5/28/71.

Concerning Loan No. 131-527418-2, Springfield Equities, Ltd. sent the insurance adjustor's bill (dated 11/27/70) to the Jacksonville National Bank 5/6/71 for payment. At the request of Springfield Equities, Ltd., FHA inspected the property 4/1/71 and outlined work to be done before loss proceeds could be released.

It is suggested that the Jacksonville National Bank continue its close follow-up of all insurance losses, in order to expedite the obtainment of necessary approvals and release of the funds.

15. DISBURSEMENT OF \$2,147.98 MADE PRIOR TO 2/25/71 BUT NOT CHARGED TO MORTGAGOR AT 4/23/71

For Loan No. 131-800488-7 (Diaz), the following amounts were collected from the mortgagor and credited to escrow funds, pending the payment of sufficient money to bring the mortgage current so it could be removed from foreclosure:

Date	Amount	Balance
Nov. 17, 1970.....	\$600	\$600
Jan. 7, 1971.....	800	1,400
Feb. 8, 1971.....	550	1,950
Feb. 22, 1971.....	425	2,375

On 2/23/71, United withdrew \$2,147.98 from the FNMA Custodial Account to be applied as ten regular monthly installments of \$211.00 each (5/1/70 through 2/1/71 installments) and nine late charges of \$4.22 each (total \$37.98). The mortgage ledger card was posted to show the application of nine monthly installments instead of ten (the 2/1/71 installment was not credited although United withdrew the money and retained it), and the collection of late charges was not shown. Also the charge to the mortgagor's escrow account (\$2,147.98) was not posted. After transfer of servicing (2/25/71), the Jacksonville National Bank on 3/17/71 withdrew \$274.04 from the mortgagor's escrow account and applied it as the 2/1/71 and 3/1/71 installments (the 2/1/71 installment should already have been credited from the \$2,147.98 check mentioned above).

At 4/23/71, the \$2,147.98 check had not been charged to the mortgagor and the ledger card does not show the other missing entries mentioned above. At 4/23/71, the mortgagor's escrow balance was \$2,077.65.

(a) It is suggested that the Jacksonville National Bank review the mortgage transactions in detail and make the following entries on the mortgagor's account; if found to be proper:

(i) Post a debit of \$2,147.98 to the mortgagor's escrow account, effective 2/23/71.

(ii) Post late charges of \$37.98 collected 2/23/71.

(iii) Obtain \$211.00 from United and credit payment of the 2/1/71 installment, effective 2/23/71.

(iv) Reverse the application of one installment from escrow, effective 3/17/71, resulting in \$137.02 being re-credited to escrow.

16. MORTGAGE PREPAID 28 MONTHS AHEAD

At 3/25/71, Loan No. 131-506704-6 (Montgomery) was prepaid to include the installment due 7/1/73 (28 months prepaid). The monthly installments are \$260.00 which means that the mortgagor has prepaid \$7,280.00. With the mortgage bearing interest at 7½%, the mortgagor could have reduced his annual interest charges by approximately \$550.00 (\$45.00 a month) if he had used the \$7,280.00 as principal curtailments instead of prepayments.

The files do not show that the mortgagor has been advised of the advantages to him of applying additional funds as curtailments, instead of prepaying two or three monthly installments each month as he has been doing.

(a) It is suggested that the Jacksonville National Bank write to the mortgagor and inform him of the financial advantages to him of applying additional funds to principal instead of prepayments.

17. SIGNED DUPLICATES OF MORTGAGES AND MORTGAGE BONDS IN SERVICER'S FILES

In many cases the files maintained for individual mortgages contained one or more signed duplicates of mortgages or mortgage bonds. In each instance these documents were notarized, but were not stamped "copy".

(a) It is suggested that the Jacksonville National Bank review all files received from United and stamp "copy" on all signed duplicates.

DEFICIENCIES CORRECTED BY THE SERVICER DURING THE AUDIT

18. DELAYS IN DEPOSIT OF FNMA AND GNMA COLLECTIONS AND IN REMITTING TO FNMA AND GNMA

At the time of our visit (4/14/71), the Springfield Equities, Ltd., Agent for the Jacksonville National Bank was holding at least 80 mortgagors' checks dated between 3/25/71 and 4/1/71 as well as all other mortgagors' checks that had been received subsequent to 4/1/71. It was estimated that these undeposited checks totaled as much as \$250,000.00. These delays in deposit also resulted in corresponding delays in remitting funds to FNMA and GNMA.

(a) We discussed this matter with Mr. Nicasio Corsello, Office Manager for Springfield Equities, Ltd., and with Mr. Charles Beason, Vice President of the Jacksonville National Bank, who stated that extra personnel would be assigned to the processing of collections in order to eliminate this backlog and deposit collections daily as they are received.

Subsequent to our discussions, all checks on hand were deposited. Also mortgagors were notified by letter that commencing May 1, 1971, they should send monthly installments directly to the Jacksonville National Bank, Jacksonville, Florida.

19. FNMA AND GNMA CUSTODIAL ACCOUNTS NOT USED BY JACKSONVILLE NATIONAL BANK AND CASH COLLECTIONS NOT PROPERLY HANDLED

At the time of our visit (4/14/71), we found that mortgage installments were not being deposited in the FNMA or GNMA Custodial Accounts that had been established by the Jacksonville National Bank in its own bank. Instead such collections were being deposited in the First National City Bank in accounts titled "Springfield Equities, Ltd., Custodial Account for FNMA" and "Springfield Equities, Ltd., Custodial Account for GNMA."

The latter two accounts had been established at the time of transfer of servicing from United Institutional Servicing Corp. but we found no indication that FNMA Form 37 (Letter Agreement for Servicer's Custodial Account on Behalf of ——— National Mortgage Association) had been prepared. These accounts were separate from the FNMA and GNMA Custodial Accounts which Springfield Equities, Ltd. maintained in the Valley National Bank of Long Island, and continued to use for mortgage collections for FNMA and GNMA mortgages that were transferred from its portfolio to the Jacksonville National Bank 1/25/71.

Also, cash collections from FNMA and GNMA mortgagors were being deposited daily in the Springfield Equities, Ltd.'s operating account (not Custodial in nature) and were then transferred by check to the FNMA and GNMA Custodial Accounts.

(a) The above matters were discussed with Messrs. Beason and Corsello, and arrangements were immediately made to close out the FNMA and GNMA Custodial Accounts that had been established in the First National City Bank. Commencing about 5/1/71, the FNMA and GNMA Custodial Accounts in the

Jacksonville National Bank were to be used for all mortgages previously serviced by United. (As shown in finding #18, mortgagors were advised to send all mortgage installments to the Jacksonville National Bank, Jacksonville, Florida, commencing 5/1/71.)

Mr. Beason also made arrangements to discontinue depositing cash collections, from FNMA and GNMA mortgagors, in the operating account. Instead, the cash will be used to purchase a bank draft for daily transmittal to Jacksonville.

20. LOAN SERVICE REPORTS NOT FILED AND FORECLOSURE CASES NOT REFERRED TO FIELD COUNSEL

In our test review of delinquent mortgages, we noted that for at least 18 FHA mortgages that were 115 or more days delinquent at the effective date of transfer of servicing (2/25/71), United Institutional Servicing Corp. had not filed Loan Service Reports (FNMA Form 145) or Notices of Default. In each instance these items should have been filed 25 to 150 days prior to the transfer date. On several occasions in recent months, the Regional Office had contacted United concerning delays in filing Form 145's.

For the majority of the cases mentioned above, we found no evidence in the files to indicate that United had inspected the properties or had face-to-face contacts with the mortgagors. Also, for an estimated 50 other FHA cases that were 90 days delinquent at the close of February 1971, and for which Loan Service Reports were due 2/28/71, we found no evidence that United had inspected the properties or had face-to-face contacts with the mortgagors.

In addition there were at least three mortgages that were referred to United for foreclosure 2/16/71 but United did not refer these to Field Counsel during February. The Jacksonville National Bank referred one of these cases to Field Counsel 3/17/71, another 3/27/71 and the third case 6/1/71.

(a) During the latter part of March and in April 1971, the Jacksonville National Bank made a concentrated effort to inspect properties and have face-to-face contacts with delinquent mortgagors. It is estimated that between 3/30/71 and 4/30/71, Jacksonville filed Loan Service Reports and Notices of Default for at least 100 cases that were 90 days or more delinquent at 2/28/71.

We believe that the backlog of cases for which United had not filed the above Reports has now been eliminated.

EXHIBIT A-1

FEDERAL NATIONAL MORTGAGE ASSOCIATION, INTERNAL AUDIT DIVISION, FIELD OFFICE, PHILADELPHIA

Variance in principal trial balance between servicer and FNMA as of Feb. 25, 1971

Loan number		Loan number	
Servicer under FNMA:		Servicer under FNMA:	
131-249975-5-----	(A) \$1,388.98	131-805582-4-----	.12
131-265961-6-----	(B) 75.34	131-806080-5-----	.06
131-283967-0-----	(C) 32.29	131-806636-6-----	.10
131-287370-5-----	(D) 23.77	131-807272-9-----	.15
131-292007-7-----	(E) 53.50		
131-301393-6-----	(E) 61.86	Total-----	2,944.92
131-301575-2-----	(E) 75.37		
131-303228-1-----	(F) 53.09	131-291554-1-----	(G) 136.62
131-305014-2-----	50.72	131-296235-0-----	262.62
131-305015-4-----	31.13	131-502749-8-----	56.61
131-503575-6-----	56.76	131-504574-9 ¹ -----	19.33
131-506704-6-----	116.22	131-505863-1-----	4.05
131-509684-1-----	69.20	131-506683-4-----	206.52
131-510244-4-----	14.55	131-510336-9-----	34.39
131-516181-6-----	20.66	131-512021-4-----	(H) 117.17
131-520153-7-----	14.26	131-512118-9-----	86.10
131-526632-9-----	36.22	131-512718-3-----	65.24
131-701130-2-----	92.89	131-516720-0-----	29.11
131-702647-4-----	31.49	131-703095-6-----	15.41
131-710911-1-----	58.14	131-710917-3-----	(I) 14.56
131-712198-7-----	200.00	131-807125-6-----	26.31
131-800488-7-----	289.30	131-807433-7-----	22.45
131-802147-1-----	26.59		
131-804295-6-----	72.16	Total-----	1,096.49

¹Servicer erroneously shows this as loan No. 131-504474-5.

EXHIBIT A-2

FEDERAL NATIONAL MORTGAGE ASSOCIATION, INTERNAL AUDIT DIVISION, FIELD
OFFICE, PHILADELPHIA*NSF checks charged back to the mortgagor's escrow account*

<i>Loan number</i>	<i>Amount</i>	<i>Loan number</i>	<i>Amount</i>
131-501069-1	\$168. 00	131-807032-9	\$334. 00
131-501669-5	164. 22	131-806253-0	278. 00
131-503577-0	287. 00	131-806909-5	214. 00
131-507303-3	221. 00		
131-509198-2	188. 00	Total FNMA	2, 967. 22
131-520741-4	100. 00		
131-526157-5	158. 00	731-061634-1	171. 36
131-525403-9	110. 00	731-066516-0	180. 00
131-803664-6	101. 00	731-069502-4	180. 00
131-806527-1	370. 00		
131-806899-8	274. 00	Total GNMA	531. 36

EXHIBIT A-3

Cases where recovery of advances exceeded amounts advanced

<i>Loan number</i>	<i>Amount</i>	<i>Loan number</i>	<i>Amount</i>
131-239744	\$76. 00	131-292990	\$96. 66
131-249324	40. 32	131-292994	245. 21
131-251303	69. 21	131-292996	16. 81
131-252121	. 39	131-293000	547. 70
131-252649	41. 99	131-293358	306. 47
131-252650	9. 72	131-293362	13. 00
131-253325	450. 00	131-294416	2, 022. 25
131-258170	19. 95	131-294682	12. 29
131-258171	366. 19	131-294683	18. 40
131-259899	236. 51	131-294974	82. 33
131-262084	197. 26	131-295224	89. 94
131-263993	19. 47	131-296597	373. 56
131-263995	45. 00	131-299324	91. 11
131-269207	63. 65	131-293890	. 18
131-270171	600. 96	131-299353	50. 70
131-270527	2. 66	131-301592	143. 22
131-270801	56. 00	131-301629	23. 71
131-272267	15. 00	131-301881	32. 48
131-272645	77. 85	131-302097	129. 86
131-273392	. 27	131-302099	167. 70
131-274768	191. 61	131-302843	110. 68
131-276559	14. 32	131-302844	89. 14
131-278451	41. 65	131-302901	4. 63
131-278457	220. 00	131-302975	653. 68
131-280091	1. 10	131-302976	362. 34
131-281178	38. 69	131-302986	276. 70
131-281327	39. 68	131-303229	59. 03
131-281744	81. 23	131-303303	61. 00
131-282631	21. 60	131-303660	576. 95
131-282852	212. 87	131-303860	52. 00
131-283447	6. 92	131-304402	. 20
131-285033	5. 79	131-305005	110. 68
131-286898	. 61	131-500542	66. 00
131-288454	30. 38	131-501945	83. 24
131-288602	7. 46	131-502411	. 20
131-289146	9. 90	131-502421	458. 07
131-289737	0. 01	131-502668	88. 16
131-289860	66. 51	131-502876	53. 00
131-290753	101. 21	131-505415	157. 46
131-291554	11. 40	131-506368	117. 66
131-291704	94. 12	131-506372	56. 07
131-291861	31. 62	131-506679	695. 56
131-292006	15. 49	131-506889	154. 95
131-292310	47. 12	131-506897	118. 06
131-292657	1, 741. 43	131-507075	94. 44

EXHIBIT A-3—Continued

Cases where recovery of advances exceed amounts advanced—Continued

Loan number	Amount	Loan number	Amount
131-507076-----	\$110. 68	131-525142-----	\$6. 19
131-507078-----	100. 35	131-525958-----	90. 83
131-507311-----	4. 00	131-526074-----	246. 88
131-507591-----	73. 78	131-526368-----	83. 54
131-507756-----	9. 64	131-526563-----	122. 00
131-507808-----	483. 09	131-700256-----	3. 44
131-508096-----	28. 80	131-700767-----	78. 00
131-508119-----	78. 21	131-701409-----	170. 50
131-508124-----	95. 92	131-704510-----	14. 70
131-508222-----	137. 24	131-706505-----	34. 68
131-508427-----	30. 68	131-710920-----	49. 93
131-508571-----	98. 30	131-710930-----	878. 19
131-508683-----	128. 35	131-711772-----	50. 43
131-508684-----	30. 21	131-802782-----	31. 14
131-508806-----	47. 54	131-804295-----	263. 66
131-508860-----	144. 62	131-805011-----	71. 36
131-509653-----	191. 84		
131-510141-----	291. 19	Total FNMA-----	21, 430. 42
131-510553-----	37. 80		
131-511053-----	8. 22	731-064015-----	27. 99
131-511377-----	140. 00	731-064121-----	51. 45
131-511378-----	107. 72	731-064945-----	22. 28
131-511402-----	44. 00	731-065431-----	68. 61
131-511701-----	36. 26	731-066722-----	107. 00
131-512982-----	357. 24	731-067900-----	313. 55
131-513982-----	196. 51	731-067968-----	70. 68
131-514509-----	16. 86	731-068706-----	101. 33
131-514533-----	37. 00	731-069752-----	75. 16
131-515098-----	440. 11	731-071452-----	47. 00
131-518766-----	78. 21	731-071547-----	20. 66
131-518786-----	78. 21	731-071700-----	297. 83
131-520148-----	24	731-071782-----	55. 72
131-520961-----	118. 06		
131-520968-----	1, 069. 47	Total GNMA-----	1, 259. 26

EXHIBIT A-4 (FINDING NO. 13)

FEDERAL NATIONAL MORTGAGE ASSOCIATION—INTERNAL AUDIT DIVISION, FIELD OFFICE, PHILADELPHIA—
OUTSTANDING CHECKS APR. 23, 1971

Loan number charged	Check No.	Date	Amount	Payee
FNMA:				
131-302843-6-----	4463	Aug. 15, 1969	\$3. 00	Shield Brokerage.
131-701820-7-----	5879	Dec. 16, 1969	81. 00	Shield Brokerage, Inc.
131-304408-8-----	5889	Dec. 12, 1969	110. 00	Shield Brokerage Co., Inc.
131-710553-1-----	6393	Jan. 30, 1970	228. 00	Do.
131-710103-----				
131-501006-7-----	6677	Feb. 16, 1970	52. 00	Shield Brokerage Co.
131-508683-4-----	6743	do-----	140. 00	Shield Brokerage Co., Inc.
131-702743-0-----	6776	Feb. 17, 1970	9. 00	Do.
131-521479-2-----	6980	Mar. 10, 1970	82. 00	Eugene Gorlick.
131-243718-1-----	7070	Mar. 13, 1970	48	James Lewis, Jr.
131-704108-4-----	10761	Nov. 25, 1970	5. 00	Shield Brokerage Co., Inc.
131-703733-2-----	11349	Jan. 18, 1971	209. 00	J. Spaulding.
131-703733-2-----	11956	Feb. 25, 1971	209. 00	Do.
131-301884-5-----	11874	Feb. 11, 1971	198. 06	City collector.
131-807380-2-----				
131-506372-1-----	12035	Feb. 25, 1971	55. 69	Wm. Peterson.
131-709903-1-----	12052	Mar. 8, 1971	286. 76	Springfield Equities, Ltd.
131-518782-2-----				
131-301206-1-----	12056	Mar. 10, 1971	87. 50	Do.
Total FNMA-----			1, 756. 49	
GNMA: 9				
731-069406-8-----	2274	May 4, 1970	57. 00	Nationwide Insurance.
731-70291-----	2385	June 1, 1970	111. 88	United Institutional Servicing Corp.
Total GNMA-----			168. 88	

¹ Escrow balance at payoff.

NEW ROCHELLE, N.Y., April 2, 1971.

Re: Mortgage executed by Edward Brynildsen and Eunice Brynildsen, his wife, to United Institutional Servicing Corp., now held by Springfield Equities, Ltd. Springfield Equities Mortgage No. 2230-509681

SPRINGFIELD EQUITIES, LTD.,
Springfield Boulevard,
Queens Village, N.Y.

(Attention: Mrs. Roberta Diamond).

DEAR MRS. DIAMOND: In accordance with the request of your office, I enclose herein photostatic copies of both the face and back of checks of my client, Eunice Brynildsen, evidencing payments required to be made under the above mortgage for May, July, August, September, October, November and December of 1970, as well as January of 1971.

My client has been in the habit of preparing and mailing checks a day or two before their due date, and, therefore, the checks aforescribed pay the following monthly installments due under the above mortgage: #172—May, 1970, #210—July, 1970, #226—August, 1970, #241—September, 1970, #262—October, 1970, #279—November, 1970, #298—December, 1970 and #317—January, 1971.

My client was unable to locate the check constituting payment for June, 1970, but enclosed is a photostatic copy of the page of her check book stubs indicating that June, 1970 was paid by her check #190 in the amount of \$232.00.

My client has not yet received her bank statements to date, and if, at the time you review the enclosed, there is still a question about her payments for the month of February, March or April of this year, I shall be glad to furnish you with proof of such payment.

I shall appreciate your confirming to me that you have established that all payments required to be made pursuant to the terms of the mortgage above described have been made and your further courtesy in having your attorneys execute and forward to me a discontinuance of the foreclosure action which you had them institute in this matter.

Very truly yours,

DAVID KLIBANOW.

(Enclosures.)

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
May 5, 1970.

To: Duncan, Regional Vice President—FNMA—Philadelphia.

From: Miller, Regional Director, Exam. and Audit—Philadelphia.

Subject: Audit of Servicer, United Institutional Servicing Corporation, New York, N.Y.

This accelerated audit was made because of the serious deficiencies disclosed by our previous audit which we reported to you on November 7, 1968.

We have examined the records maintained by this Servicer on FNMA and GNMA mortgages, and reviewed its procedures for servicing these mortgages. The audit began on March 16 and ended on April 1, 1970.

At February 25, 1970, the effective date of our audit, the Servicer was servicing 4,291 FNMA and 572 GNMA mortgages for the Northeastern Regional Office, 750 for itself, and 3,817 for other investors.

Nine findings are shown on Exhibit A. These findings were discussed with Mr. Edwin Katz, Chairman of the Board, Mr. Bernard S. Roth, President, Mr. Harold Fisher, Treasurer, and Mr. Richard Levine, Asst. Treasurer and Servicing Manager, who agreed to correct the deficiencies shown by Findings 1 through 7, but we were unable to obtain an agreement for clearance of Findings 8 and 9.

These findings are serious in our opinion, because they show material deficiencies in the Servicer's records or procedures. We suggest that the Servicer be required to describe in detail the steps it will take to correct the deficiencies shown in Findings 1 through 7.

Finding No. 8 concerns the Servicer's drawing of FNMA and GNMA Custodial Account checks out of date sequence and its use of posting dates for disbursements, on the mortgage history runs (ledger cards), instead of the date the funds were actually disbursed.

The Servicer agreed to study these matters but we were not assured that it will be able to make the necessary changes to clear this finding. We suggest that the Servicer be instructed to advise the Regional Office of the progress made in clearing these deficiencies.

Finding No. 9 concerns the Servicer's failure to follow-up, within a reasonable time after disbursement is made, for insurance ordered through the New York Property Insurance Underwriting Association, and the policy or binder is not received. The Servicer wishes to look into this matter more carefully and we did not receive assurance that such follow-up action would be taken. We suggest that the Regional Office instruct the Servicer to initiate a follow-up system in this regard.

Principal balances: FNMA, \$81,481,240.48; GNMA, \$8,062,221.39.

Escrow balances: FNMA, \$874,697.23; GNMA, \$116,426.68.

The previous audit report issued on November 7, 1968, contained 9 Exhibit A and 4 Exhibit B findings. Since our last audit, we believe the Servicer's performance has not changed materially.

This coupled with the fact that the Servicer did not clear four findings from previous audits has caused us to classify the Servicer's records and procedures as inadequate to assure compliance with FNMA requirements.

Exhibit 5 contains five findings which we did not consider serious. These were discussed with the Servicer's officials who have agreed to take the appropriate action. No further action is necessary.

The Appendix to this report contains additional information and comments concerning the Servicer's activities.

We shall appreciate two copies of your letter to Mr. Edwin Katz, Chairman of the Board, confirming the agreements for clearance and copy of the Servicer's reply.

ARTHUR W. MILLER.

EXHIBIT A

DEFICIENCIES WHICH THE SERVICER AGREED TO CORRECT

1. FNMA FORM 179 (REPORT OF CUSTODIAL ACCOUNT) NOT PREPARED CORRECTLY; T AND I FUNDS NOT IN AGREEMENT WITH SERVICER'S TRIAL BALANCE (PART III SERVICERS GUIDE)

The Servicer's procedures do not provide for the correct reporting of collections and disbursements on FNMA Form 179 (Report of Custodial Account). The transactions as reported for the month of February 1970, were incorrect as follows:

(i) Instead of using its daily IBM summaries of collections as the basis of items shown on Line 2 (Receipts This Period) of Column 1 (Deposits for Insurance, Taxes, etc.), the Servicer starts with the total escrow funds as shown on the Escrow Trial Balance at the cutoff date, subtracts the balance at the beginning of the month, and adds the disbursements to arrive at the cash receipt figure (Line 2) which is a "forced" total.

The daily IBM summaries for February showed receipts of \$638.91 less than the amount reported by the Servicer on Line 2 for GNMA and \$27.72 more than the amount reported by the Servicer on Line 2 for FNMA.

(ii) The Servicer erroneously transferred \$743.77 from Line 6 (Less Disbursements this Period) of Column 1 to Line 6 of Column 5 (Insurance Loss Drafts). This figure represented the amount of an overdraft on a mortgage on which an insurance loss draft had been received.

(iii) The Servicer reported the amount of service charges earned on Line 7 of Column 2 (FNMA Principal and Interest) instead of the amount actually disbursed, which was \$864.79 more than reported for FNMA and \$55.75 less than reported for GNMA.

(iv) The Servicer reported the amount of late charges earned on Line 6 of Column 4 (Late Charges) instead of the amount actually disbursed, which was \$747.71 less than reported for FNMA and \$214.56 less than reported for GNMA.

(v) Where unapplied funds are reapplied by preparation and redeposit of a check, the reapplication only is shown, not the original receipt of funds.

(vi) Where unapplied funds are reapplied by journal entry, the reapplication is shown on Lines 2 and 6 instead of Line 4 (Adjustments and Reapplications).

(vii) As a result of the deficiencies noted in item (i), as well as other adjustments (of which the Servicer was aware), the trial balance of the escrow funds shown by the Mortgage Payment Records at February 25, 1970, exceeds the Total Tax and Insurance Funds reported on Line 13 by \$641.86 for GNMA while Line 13 exceeds the trial balance for FNMA by \$27.72 as follows:

	GNMA	FNMA
T. & I. funds reported by servicer on line 13, form 179.....	\$117,068.54	\$875,413.28
Adjustments to form 179 by auditor:		
Receipts shown on form 179, not supported by servicer's records.....	(638.91)	27.72
Receipts per servicer's records not shown on form 179.....		(743.77)
Disbursements per servicer's records not shown on form 179.....		
Disbursement for prior period not shown in opening balance.....	(2.95)	
T. & I. funds on line 13, form 179 (as adjusted by auditor).....	116,426.68	874,697.23
Escrow trial balance, per servicer.....	117,068.54	875,810.81
Collections received, but not posted prior to 25th of the month.....		3,549.00
Disbursements made prior to 25th of the month, but not posted.....		(4,690.30)
Escrow trial balance (as adjusted).....	117,068.54	874,669.51
Unreconciled difference.....	(641.86)	27.72

The errors shown in items (iii) and (iv) were compensated by the differences between receipts as shown by the daily IBM summaries and the amount shown by the Servicer on Line 2 of Form 179, as we have reported in item (i) above.

(a) Mr. Edwin Katz, Chairman of the Board, stated that the Servicer will change its procedures for the preparation of Form 179 to provide that the amount shown on Line 2 (Receipts This Period) is recorded from daily IBM summaries. For items (ii) through (vi), Mr. Katz stated that the transactions affecting loss drafts, service charges, late charges and unapplied funds would be shown on Form 179 in correct amounts and correctly classified. Regarding Item (vii), Mr. Katz stated that the Servicer would reconcile the difference between the trial balances of the mortgage escrow accounts and the total tax and insurance funds reported on FNMA Form 179 for both GNMA and FNMA.

2. DELAYS IN REMITTANCES AND INCORRECT INFORMATION SHOWN ON CASH RECEIPT VOUCHERS (SEC. 205 SERVICERS GUIDE)

For at least 11 FNMA remittances and 7 GNMA remittances during the months of January and February 1970, FNMA did not receive the funds until 5 to 6 business days after the Servicer received the installments. (Based on the net totals reported on the latest FNMA Form 253 for FNMA and GNMA, the Servicer should make daily remittances to FNMA).

Also, on the Cash Receipt Vouchers (FNMA Form 57), the Servicer reports collections as being received on the date of processing by its IBM Service Bureau. In many cases, the processing is performed one day after the actual date of collection.

(a) Mr. Katz stated that the Servicer would remit collections for FNMA and GNMA mortgages on a daily basis, to reach FNMA within four days after the date of collection. Also, Mr. Katz stated that the Servicer will show on the Cash Receipt Vouchers the actual date collections are received.

3. FUNDS NOT TRANSFERRED TO FNMA CUSTODIAL ACCOUNT AT TIME MORTGAGES PURCHASED BY FNMA (SEC. 204 SERVICERS GUIDE)

For 124 mortgages purchased by FNMA during the month of February 1970, the mortgagors' escrow funds and installment payments made after the date of submission were not transferred to the FNMA Custodial Account until 16 to 49 days after the Servicer received payment for the mortgages. Also, for at least 13 mortgages purchased during the period 3/12-3/13/70, the mortgagors' escrow funds and installment payments made after the date of submission had not been transferred to the FNMA Custodial Account as of the date of our visit (3/25/70).

Under the Servicer's procedures, the mortgagors' escrow funds, and installment payments made after the submission, but prior to purchase of the mortgage, are not transferred promptly to the FNMA Custodial Account when FNMA purchases the mortgages. Instead, the Servicer normally transfers such funds on approximately the cutoff date (25th of the month) on mortgages purchased between the 15th of the previous month and the 15th of the current month. (The additional delays in transferring funds on mortgages purchased in February were due to a backlog in work which had developed.)

(a) Mr. Katz stated that in the future, mortgagors' escrow funds on hand and any installment payments made after the date of submission (prior to purchase) will be transferred to the FNMA Custodial Account within a week after receiving payment from FNMA for the purchase.

4. HAZARD INSURANCE POLICIES NOT HANDLED PROPERLY (SEC. 120 SERVICERS GUIDE)

We found the following deficiencies in hazard insurance policies:

(i) For the following eight mortgages, the insurance coverage is materially in excess of the unpaid principal balance of the mortgages:

FNMA No.	Unpaid balance, Feb. 25, 1970	Amount of insurance	Excessive coverage
31-239903.....	\$19,288.41	\$35,000	\$15,711.59
31-240837.....	20,823.00	57,500	36,677.00
31-64022.....	8,838.12	38,500	29,661.88
31-243718.....	17,042.63	35,000	17,957.37
31-283452.....	17,887.08	40,000	22,112.92
31-511391.....	15,235.07	30,000	14,764.93
31-241430.....	20,460.86	40,000	19,539.14
31-249707.....	17,830.06	61,000	43,169.94

(ii) Three FNMA policies did not name FNMA as the mortgagee. Of these policies, one shows the Servicer as mortgagee and two show no mortgagee. Nine GNMA policies did not name GNMA as the mortgagee. Of these policies, four show the Servicer as mortgagee, four show FNMA, and one shows "United Institutional Service of Government National Insurance Corp."

These matters were included in a finding in our previous audit.

The deficiency shown in item (ii) above resulted from inadequate review of hazard insurance policies and lack of procedures to obtain endorsements where necessary.

(a) In regard to item (i), Mr. Katz stated that if it is determined that materially excessive insurance coverage is necessary, the mortgagor's approval will be obtained in writing and placed in the files.

Concerning item (ii), Mr. Katz stated that all FNMA and GNMA insurance policies will be reviewed and action taken in cases where the mortgagee clause is incorrect.

5. MORTGAGORS ERRONEOUSLY CHARGED WITH INSURANCE DISBURSEMENTS (SEC. 120 SERVICERS GUIDE)

The following disbursements which are charged to the mortgagors' deposit accounts, are coded as hazard insurance expense:

Loan No.	Insurance disbursements		Premiums on policies in insurance files		Premium
	Date	Amount	Policy amount	Effective date	
31-253076.....	May 16, 1969	\$120.00			
	June 6, 1969	64.00	\$22,000	May 3, 1969	\$64
31-266231.....	Mar. 17, 1969	22.00			
	May 16, 1969	136.00			
	Sept. 17, 1969	54.00	15,000	Oct. 14, 1969	54
	Oct. 9, 1969	88.00	30,000	June 30, 1969	88
	Oct. 30, 1969	75.00			
31-295643.....	Sept. 29, 1969	41.00	20,000	Feb. 27, 1969	41
	Sept. 19, 1969	43.75			
	Feb. 19, 1970	118.00	35,000	Feb. 27, 1970	118
31-240051.....	Jan. 7, 1970	77.00	18,500	Sept. 10, 1969	77
	Sept. 26, 1969	111.00			
31-248110.....	May 16, 1969	75.00	22,500	Mar. 24, 1969	75
	May 22, 1969	75.00			
	July 9, 1969	171.28			
	do.....	63.68			
	Feb. 10, 1970	198.00			

As indicated, for 10 of the 17 disbursements, we were unable to locate premium notices or insurance policies in support of the disbursements.

This matter is similar to a finding in our previous audit.

(a) Mr. Katz stated that the Servicer would follow-up the above unsupported disbursements and advise FNMA of the disposition of each item.

6. IMPROPER HANDLING OF INSURANCE LOSS DRAFTS (SEC. 121 SERVICERS GUIDE)

We reviewed the Servicer's handling of 7 insurance loss settlements, in amounts ranging from \$4,304.36 to \$12,248.41 and found the following deficiencies.

(i) For three of the losses (31-284332, 31-258171, and 31-507892), the Servicer did not prepare and forward to FNMA a Form 176 (Report of Hazard Insurance Loss), or any other notification of the loss or recommendation concerning disposition of the loss proceeds.

(ii) In five cases, the Servicer did not show the collection or disbursement of the insurance loss proceeds in Column 5 of the FNMA Form 179 (Report of FNMA Custodial Account). These transactions were reported in Column 1 (Deposits for Insurance, Taxes, etc.)

These matters were included in a finding in our previous audit.

(a) Mr. Katz stated that the Servicer would submit Forms 176 to the Regional Office for the listed cases and for all future cases involving insurance loss drafts of over \$1,000.00. He also stated that all insurance loss draft transactions in the future, would be shown in Column 5 of Form 179.

7. DELAYS IN APPLYING INSTALLMENTS (SEC. 209 SERVICERS GUIDE)

In five cases where unapplied funds sufficient to pay at least one full installment were received from 36 to 76 days earlier, such funds had not been applied at the date of our visit (3/25/70).

The Servicer's procedures do not provide for the prompt re-application of funds previously credited to the mortgagors' accounts as unapplied items, when such funds are sufficient to make a full installment. This deficiency also results in delays in transmitting these funds to FNMA.

(a) Mr. Katz stated that in the five cases above, the funds would be immediately applied as installments, to the extent possible, and that in the future, when unapplied funds sufficient to make a full installment have been received, the funds will be reapplied immediately and remitted to FNMA.

DEFICIENCIES ON WHICH CORRECTIVE ACTION WAS NOT ARRANGED

8. CHECKS ON FNMA AND GNMA CUSTODIAL ACCOUNTS NOT DRAWN IN DATE SEQUENCE AND TRANSACTION DATES INCORRECT (SEC. 202 SERVICERS GUIDE)

For the reporting month ended 2/25/70, there were approximately 335 checks (prenumbered) drawn on the FNMA Custodial Account and 65 checks drawn on the GNMA Custodial Account that were not in date order sequence. These discrepancies occurred on various dates. Also, the Servicer's procedures provide that mortgage history runs show posting dates for disbursements, rather than actual dates of disbursements.

For disbursements processed by Financial Services, Inc. (service bureau), disbursements are charged to the mortgagor's deposit account on the date of processing, but checks may not be drawn and dated until 1 to 5 business days later. In cases where disbursements are processed by the Servicer, checks are drawn and dated on the date of processing, but charges against the mortgagor's account are dated 1 to 3 business days later, when they are posted by the service bureau. As of February 25, 1970, checks totalling \$4,690.30 had been disbursed from the FNMA Custodial Account, but the transactions had not been posted to the individual mortgagors' accounts involved. (See Finding No. 1).

The Servicer's procedures for drawing checks out of date sequence and the use of posting dates instead of actual disbursement dates presented problems in the review of disbursements.

This matter was the subject of a finding in our previous audit.

(a) Mr. Katz agreed to review the above matters in order to effect procedural changes which would provide for drawing checks in date sequence, and show on the mortgage history runs the actual disbursement dates, instead of posting dates. However, we were not assured that the necessary corrections could be made.

9. HAZARD INSURANCE POLICIES OR BINDERS NOT IN THE FILES (SEC. 120 SERVICERS GUIDE)

For insurance ordered through the New York Property Insurance Underwriting Association (properties in "high risk" areas), the Servicer does not follow-up to obtain a policy or binder within a reasonable time after the disbursement of funds. In at least four cases, no policy or binder had been received at the date of our review (4/1/70), although disbursements had been made 77 to 299 days earlier.

(a) Although Mr. Katz stated that he would look into this matter, he did not assure us that the Servicer would follow-up in the future (after a reasonable time) regarding the obtainment of hazard insurance policies or binders on properties insured through the New York Property Insurance Underwriting Association.

Exhibit B

DEFICIENCIES WHICH THE SERVICER AGREED TO CORRECT

10. FAILURE TO HANDLE CORRECTLY PARTIAL PAYMENTS RECEIVED ON SECTION 235 MORTGAGE

The Servicer serviced one Section 235 mortgage (loan 31-525403-KU) for FNMA at the date of our visit, but has not been promptly depositing the FHA portion of the installment which is received first each month. Instead, the Servicer holds the check for this portion until the remaining portion is received from the mortgagor, at which time the full amount of the installment is deposited.

(a) Mr. Edwin Katz, Chairman of the Board, stated that in the future, the Servicer would deposit the first payment received each month on a Section 235 mortgage promptly to a custodial account.

11. INCORRECT CERTIFICATE REGARDING STOCK OWNERSHIP

The Servicer, through clerical error, failed to include the unpaid principal balances of "KJ" mortgages with 500,000 series loan numbers (\$85,632.92) in the Certificate of Stock Ownership submitted to the Regional Office for the Quarter ended 12/31/69.

(a) Mr. Katz stated that in the future, the Servicer would take greater care in the preparation of certificates regarding the unpaid principal of mortgages requiring stock ownership, to assure that all applicable mortgages have been included.

12. SIGNED DUPLICATES OF MORTGAGES AND MORTGAGE BONDS IN SERVICER'S FILES

The Servicer's files contained signed copies of at least four mortgages and nine mortgage bonds for FNMA mortgages.

(a) Mr. Katz stated that the Servicer would review the files and stamp "copy" on all signed copies of Mortgages and Mortgage Bonds for the FNMA mortgages.

13. PAYOFFS NOT PROPERLY HANDLED (SEC. 209-D SERVICERS GUIDE)

For two of the four payoffs reviewed, we found that—

(i) In one case (loan 31-69399-X), the mortgage documents had not been forwarded to the mortgagor as of the date of our visit (4/1/70), although FNMA had sent the documents to the Servicer 33 days earlier.

(ii) For loan 31-508978-AM, there was no transmittal letter in the file to indicate the date the mortgage documents were returned to the mortgagor or his attorney. (We were informed that the documents were hand delivered).

(a) Mr. Katz stated that regarding future payoffs, the Servicer would (i) return mortgage documents within a week after the documents are received from FNMA, or the FHA Notice of Audit is received, whichever is later; and (ii) retain transmittal letters, or receipts (if hand-delivered) to indicate the return of mortgage documents to mortgagors or attorneys.

14. TAX RECEIPTS NOT AVAILABLE (SEC. 119 SERVICERS GUIDE)

Of 33 tax disbursements, the Servicer could not locate tax bills for 20 mortgages. From our examination we determined that the taxes had been paid but apparently misfiled.

(a) Mr. Katz stated that steps would be taken to locate the missing tax receipts and that all tax receipts would be filed in an orderly manner in the future.

MATTERS REFERRED TO US BY REGIONAL OFFICE PERSONNEL

The Controller's Division requested that we discuss with the Servicer, the need to—(i) show the effective date on FNMA Form 53 (Collection Report) for all payoffs; (ii) balance FNMA Form 256 (Monthly Reconciliation of Fixed Installments) each month; (iii) show the correct status of delinquent mortgages on the monthly reports to FNMA; (iv) prove interest (verify allocation) before submission of monthly reports; and (v) show all mortgages purchased up to approximately the 20th of the month in monthend reports.

(a) Mr. Edwin Katz, Chairman of the Board, stated that the Servicer had already taken corrective action regarding items (i), (ii), (iii) and (iv). Item (v) is included in Finding No. 3.

The Administrative Services Section requested that we discuss with the Servicer, the need to show the FNMA loan number in the upper right hand corner for identification purposes when submitting the original of the mortgage document and/or assignment to FNMA subsequent to the purchase of the mortgage.

(a) Mr. Katz stated that the Servicer would show the FNMA loan number as requested when submitting the original of the mortgage document and/or assignment subsequent to the purchase of the mortgage.

The Legal Division requested that we discuss with the Servicer, the difficulties of new Field Counsel in attempting to determine whether there were judgments against mortgagors in foreclosure with common names (e.g., Smith). (Field Counsel apparently feels that this problem is due in part to the low quality of the credit and security).

(a) Mr. Katz stated that the above problem was not due entirely to the low quality of the credit and security, and that Field Counsel should, if possible, use the same title company that handled the mortgage at inception. This company should have an affidavit on file regarding any liens or judgments against the mortgagor at that time.

SERVICER'S HANDLING OF DELINQUENCIES

A delinquency report on the Servicer's total portfolio was not available. The Servicer's overall delinquency ratio at February 25, 1970 was 10.8% on a portfolio of 9,430 mortgages as compared to 9.3% for FNMA and GNMA mortgages.

Mr. Michael J. Kelly, Assistant Servicing Manager, states that the delinquency procedures for other investors differ from those used for FNMA and GNMA, as follows:

For FNMA and GNMA, personal contacts begin on the 17th of the first month of delinquency. For other investors, such contacts are not made until after the first month of delinquency.

Mr. Kelly stated that in an effort to curb its high delinquency ratio, the Servicer has recently been referring delinquency cases to the broker who originated the mortgage, for personal contact during the second month of delinquency. Also, such cases are referred to the originating broker during the first month of delinquency, where the Servicer's personnel cannot make personal contact.

UNITED INSTITUTIONAL SERVICING CORP.,
New York, N.Y., August 27, 1970.

Re FNMA Audit Finding #8 "checks . . . not drawn in date sequence. . ."

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
211 S. Broad Street, Philadelphia, Pa.

(Attention Mr. John F. Conway, Loan Representative).

GENTLEMEN: We are pleased to inform you that as of today, a new system of dating checks and transactions is in effect.

The major change in our procedure is to post-date our data processing coding sheets, i.e. when they are returned to us, the transaction date is still current and those checks listed as disbursed for various mortgagor accounts, will, in fact, be disbursed on the dates indicated.

Just for the record, we are enclosing a flow-chart of the new system.

If there are any questions, we shall be more than pleased to answer them.

Cordially yours,

DAVID A. WEINBERG,
Systems Analyst,

JULY 23, 1970.

Re FNMA Audit.

Mr. EDWIN KATZ,
Chairman of the Board,
United Institutional Servicing Corp.,
New York, N.Y.

DEAR MR. KATZ: On June 19, 1970, we wrote a letter to you stating that audit findings #1 through #7, inclusive and #9 are considered as being satisfied. We requested further information regarding finding #8.

Your letter dated June 5, 1970, states, in part, that you have hired a procedure analyst firm and that one of their first assignments would be to adopt a system which would satisfactorily clear our audit finding #8.

To date, we have not been informed of this proposal and we wish to request that you direct your immediate attention to this matter.

Sincerely yours,

JOHN F. CONWAY,
Loan Representative.

JUNE 19, 1970.

Re FNMA Audit.

Mr. EDWIN KATZ,
Chairman of the Board,
United Institutional Servicing Corp.,
New York, N.Y.

DEAR MR. KATZ: We have completed our analysis of your reply dated June 5, 1970, of our audit, and wish to advise you that findings #1 through #7, inclusive and #9 are considered satisfied. In reference to finding #8, kindly advise this office as to what procedures which you propose to satisfy our finding. FNMA Form #176, Report of Hazard Insurance Loss, should be prepared when the insurance loss drafts have been received and deposited to the FNMA Custodial Account.

The correctional procedures which you have outlined should result in a more satisfactory level of performance regarding your selling and servicing operations.

Sincerely yours,

JOHN F. CONWAY,
Loan Representative.

June 16, 1970.

(Attention McCarron, Asst. Regional Vice President).

K. A. DUNCAN, *Regional Vice President*, FNMA

In a letter dated June 5, 1970 concerning the subject audit, the Servicer commented on Finding No. 6—Improper Handling of Insurance Loss Drafts, as follows:

"It was the writers understanding, when talking to your examiner (auditor) that you required Form 176 when we learned of a fire. Mr. Troglio of our Insurance Department states that you do not wish this form until such time as the fire loss draft is received and definite instructions can be made. We will appreciate your instructions with reference to this matter."

As discussed with the Servicer and indicated in our report, we requested the Servicer to forward Form 176 (Report of Hazard Insurance Loss) to FNMA when insurance loss drafts have been received and deposited to the FNMA Custodial Account.

We suggest that you clarify this matter with the Servicer.

ARTHUR W. MILLER,
Regional Director.

UNITED INSTITUTIONAL SERVICING CORP.,
New York, N.Y., June 5, 1970.

Re FNMA Audit.

Mr. K. A. DUNCAN,
Regional Vice President,
Federal National Mortgage Association,
Philadelphia, Pa.

DEAR MR. DUNCAN: In reply to your letter of May 14, 1970, we beg to advise as follows: As to Finding #1—Set forth below is the new reconciliation prepared by Mr. Fisher. Mr. Fisher advises that in the future reconciliations will be in the form requested by GNMA and FNMA and will not be backed into as was the report of February.

Finding No. 1:

Unreconciled difference—Per FNMA Audit Letter dated GNMA FNMA
 5/14/70 Exhibit A—Page 2----- (\$641. 86) \$27. 72
 This difference was due to the following:
 Disbursements made prior to 25th of month but not posted:

	Dated	Check No.	Loan No.	Amount
Feb. 4, 1970-----		2039	71452	\$350. 00
Do-----		2040	71452	21. 55
Feb. 12, 1970-----		2081	65901	45. 10
Feb. 18, 1970-----		2082	64497	106. 00
Feb. 20, 1970-----		7A	63627	97. 00

Incorrect adjustment made to mortgagor's account (Account credited that should have been debited).

Loan No:			
65900-----	9. 56		
71545-----	9. 70		
Disbursement for prior period-----	2. 95(A)		
Excess T & I Funds-----			\$27. 72(A)
Total-----		\$641. 86	27. 72

Items marked (A) are adjustments required to be made so that T & I Funds will agree with Escrow Trial Balance. These accounts are now in balance.

As to Finding No. 2—This company will arrange to forward FNMA funds within 2 to 3 days after receipt of same. Due to the fact that we use a service bureau it would be very difficult for us to forward funds within 24 hours. We believe that we can do it within 2 days but ask for an allowance of 3 days. Our Servicing Head has been instructed to have the date recorded as the date received instead of the date processed by the IBM Bureau.

On all new purchases by FNMA hereafter all escrow funds and payments are being transferred to the FNMA Custodial Account promptly.

As to Finding No. 4—*Hazard Insurance policies not handled properly*: Loan 64022—Amount of Insurance has been reduced to \$13,500.00 and Loan 240837—Amount of Insurance has been reduced to \$34,000.00.

We have written to the home-owners on the remaining cases advising them of their coverage and asking that they instruct us whether they are desirous of continuing as to what appears to be excessive coverage. We have found in some of our files losses that the insurance companies are taking the replacement value of the property as the value, and fixing the cost of replacement as approximately double the amount of the mortgage. Therefore, when a home-owner forwards to us a policy for the larger amount, we accept same. In the future, however, we will specifically call it to his attention.

As to the policies which do not have the name of FNMA or GNMA, as mortgagee, some requests had been made but have not been received. In any event, all policies are being checked as to the names of mortgagor and mortgagee.

The Insurance Department has shown great improvement and we feel it is properly staffed and problems of this sort are unlikely to occur in the future.

As to Finding No. 5—*Mortgagors erroneously charged with insurance Disbursements*: Loan 253076—Payment of 5/16/69 of \$120.00. A binder has been cancelled and the \$120.00 refund should be forthcoming; Loan 266231—Item of \$317.69 represented an earned premium on a cancelled policy. Item dated 5 16 69 of \$136.00 covers policy in effect. Item 9/17/69 covers policy in effect. 10 9 69 and 10/30/69, policies returned for cancellation and refunds will be received; Loan 295643—9/19/69 the amount of \$43.75 represents an earned premium, on policy cancelled in Great Southwestern. This was excess line policy which was required to protect property until the New York Property Underwriters issued its policy of \$35,000; Loan 240051—Policy of 9/26 69 was ordered by us an premium paid. Subsequent thereto, owner brought in his policy and requested that we pay same. We, therefore, cancelled policy on 9 26 69 and requested refund; and Loan 248110—Payment of 5 16/69 and 5/22/69 are duplicate payments and a refund on one will be forthcoming from Fifth Avenue Agency. Policies of 7 9 69 was an excess line coverage and was cancelled when the policy of 2 10/70 was received from the New York Property Underwriters. These are earned premiums and we are unable to obtain refunds. As you are undoubtedly aware, the excess lines bear

extremely high premiums and are frequently further loaded when certain conditions exist in the properties. As to 2/10/70, \$198.00 premium covers policy FP 3830922 in the Reliance Insurance Company in the sum of \$25,000.00 which replaced the duplicate policies of 5/16/69 and 5/22/69.

As to Finding No. 6—*Improper handling of insurance loss drafts:* Loan 284332—Check has been deposited and form 176 will be forwarded to you on Monday; We have received the fire loss draft but the original seller is interested in restoring the property. He is to submit a contract to us very shortly for the restoration of the building and will agree to bring the loan current when the work has been completed and approved by the FHA. Of course, no monies will be released until this is done. If we are not in receipt of the contract by 6/12/70, it is our intention to recommend foreclosure; and Loan 507892—Form 176 was sent 4/1/70. As to incorrect use of columns in Form 179, this matter has been called to the attention of the Accounting Department and will be corrected in all future cases. It was the writers understanding, when talking to your examiner, that you required from 176 when we learned of a fire. Mr. Troglio of our Insurance Department states that you do not wish this form until such time as the fire loss draft is received and definite recommendations can be made. We will appreciate your instructions with reference to this matter.

As to Finding No. 7—The servicer has been informed by the servicing department that where unapplied funds are sufficient to pay the installment they will be transferred promptly. Unapplied funds in accounts will be analyzed to insure proper transfer.

As to Finding No. 8—This item causes us a considerable problem due to the fact that the service bureau posts as of a particular date and by the time the disbursements are received by us and analyzed, there may have been a requirement for a check on an insurance matter or disbursements to FNMA which will be of a later date than for an earlier check number. We have hired a Procedure Analyst from Peat, Marwick, Mitchell and Co. and when he reports the later part of this month, his first task will be to install a system to cope with this problem.

As to Finding No. 9—We have provided a follow up for the insurance binders and policies ordered through the New York Property Insurance Underwriting Association and we believe that this problem is near solution.

Thank you for calling these matters to our attention.

Yours very truly,

EDWIN KATZ,
Chairman of the Board.

UNITED INSTITUTIONAL SERVICING CORP.,
New York, N.Y., May 20, 1970.

Mr. K. A. DUNCAN,
Regional Vice President, Federal National Mortgage Association, Philadelphia, Pa.

DEAR MR. DUNCAN: We have your letter of May 14, 1970 regarding the above audit.

I have asked the persons responsible for each of the respective items to analyse the report and to advise me so that I may be able to advise you of the corrections of the deficiencies and assure you they will not occur again in the future.

As soon as I have the required details, I shall be in touch with you.

Cordially yours,

EDWIN KATZ,
Chairman of the Board.

U.S. GOVERNMENT MEMORANDUM

NOVEMBER 7, 1968.

To: Keegan, Agency Manager—GNMA—Philadelphia
 From: Miller, Agency Director—Examination & Audit—Philadelphia
 Subject: Audit of Servicer, United Institutional Servicing Corporation, New York,
 N. Y.

We have examined the records maintained by this Servicer on FNMA and GNMA mortgages, and reviewed its procedures for servicing these mortgages. The audit began on October 10 and ended on October 29, 1968.

At August 25, 1968, the effective date of our audit, the Servicer was servicing 1,323 FNMA mortgages and 507 GNMA mortgages for the Philadelphia Agency, and 3,744 for other investors.

The Servicer began servicing for FNMA in April 1967 when servicing was transferred from U. I. & I. Funding Corporation, an affiliated company, who was last audited February 25, 1966. The Servicer has not been previously audited.

Nine findings are shown on Exhibit A. These findings were discussed with Mr. Edwin Katz, Chairman of the Board and Mr. Richard Levine, Asst. Treasurer and Servicing Manager, who agreed to correct the deficiencies shown by Findings 1 through 7 but we were unable to obtain an agreement for clearance of Findings 8 and 9.

Finding No. 1 is serious in our opinion, because it concerns inaccurate certifications at the time of submission of 2 mortgages to FNMA.

Findings 2 through 7 and Finding No. 9 are also serious, in our opinion, because they show material deficiencies in the Servicer's records or procedures. We suggest that the Servicer be required to describe in detail the steps it will take to correct the deficiencies shown in Findings 2 through 7.

Finding No. 8 concerns the \$1,000.00 deductible clause in the Servicer's fidelity bond. We recommend that when the Servicer's letter is received, requesting permission to retain the \$1,000.00 deductible clause, the request be referred to the Washington Office for a specific waiver.

Finding No. 9 concerns the Servicer's drawing of FNMA and GNMA Custodial Account checks out of date sequence and its use of posting dates for disbursements, on the mortgage history runs (ledger cards), instead of the date the funds were actually disbursed.

The Servicer agreed to study these matters but we were not assured that it will be able to make the necessary changes to clear this finding. We suggest that the Servicer be instructed to advise the Agency of the progress made in clearing these deficiencies.

Because of the number of serious findings, we have classified the Servicer's records and procedures as inadequate to assure compliance with FNMA requirements.

Exhibit B contains 4 findings which we did not consider serious. These were discussed with the Servicer's officials who have agreed to take the appropriate action. No further action is necessary. We believe it would be desirable to send the Servicer a copy of Exhibit B.

Certain details, which we consider an integral part of evaluation of the importance of the inaccurate certifications by the Seller/Servicer, are shown on Exhibit AA. We do not consider these details appropriate for transmission to the Seller/Servicer.

The Appendix to this report contains additional information and comments concerning the Servicer's activities.

We shall appreciate two copies of your letter to Mr. Katz confirming the agreements for clearance and a copy of the Servicer's reply.

ARTHUR W. MILLER.

[Exhibit A—Government National Mortgage Association, Examination and Audit Division,
 Field Office, Philadelphia]

DEFICIENCIES AGREED TO CLEAR

1. INACCURATE CERTIFICATIONS THAT ALL MATURED MORTGAGE INSTALLMENTS HAD BEEN PAID BY THE MORTGAGORS

(Sec. 617 Sellers Guide)

For each of the following two mortgages sold to FNMA within the last year, the Seller/Servicer had not received the latest matured installment from the mortgagor at the time the mortgage submission was received by FNMA.

(A) 31-291703KK (Guy)

The mortgage was offered to FNMA on 11/22/67 and the offer was accepted 11/27/67. FNMA subsequently extended the expiration date of the Immediate Purchase Contract to 3/8/68.

The Mortgage Submission Voucher was signed by the Seller/Service 2/28/68, mailed (postmarked) 2/29/68, and received by FNMA 3/1/68. On this voucher the Seller/Service certified that the 2/1/68 installment was paid. FNMA purchased the mortgage 3/26/68 at the 2/1/68 balance.

However, the Seller/Service's files and records show that the mortgagor did not pay the 2/1/68 installment and has not paid any installments since that date. The mortgage was in foreclosure at the date of our visit.

(B) 31-295224KK (Orla)

The mortgage was offered to FNMA on 1/16/68 and the offer was accepted 1/18/68. FNMA subsequently extended the expiration date of the Immediate Purchase Contract to 4/30/68.

The Mortgage Submission Voucher was signed by the Seller/Service 4/26/68 and it was received by FNMA 4/30/68. On this voucher the Seller/Service certified that the 4/1/68 installment was paid. FNMA purchased the mortgage 5/9/68 at the 4/1/68 balance.

The Seller/Service's files and records show that the 3/1 and 4/1/68 installments, constituting the first two installments due under the terms of the Mortgage Bond, were unpaid at the time the mortgage was submitted to FNMA for purchase. The records also show that on 4/18/68 the Seller/Service returned to the mortgagor a money order which had been submitted in payment of the 3/1/68 installment, and instructed the mortgagor that he owed the 3/1 and 4/1/68 installments plus late charges of \$4.26 for each month.

The original mortgagor did not pay any installments on the mortgage but on 9/13/68 the property was sold to Annette Mackey and Enid Williams, subject to the existing mortgage, at which time the assumptors paid all of the installments 3/1/68 through 9/1/68 plus FNMA interest on advances and legal fees incurred by FNMA in the foreclosures proceedings.

Each of the above cases was reviewed with Mr. Edwin Katz, Chairman of the Board. The Seller/Service's procedures required only that the department submitting the mortgage to FNMA contact the Cashier Department to see if the current month's installment had been received. Mr. Katz said that the person submitting the two mortgages had apparently been informed that the checks had been received but had not been posted.

(a) Mr. Katz stated that under the Free Market System, mortgage ledger cards are sent to FNMA with the mortgage submission. He said the ledger cards sent to FNMA will be xerox copies of the Seller/Service's posted ledger cards, and instructions have been issued that no ledger cards are to be posted, other than through the normal processing of payments received.

Mr. Katz also stated that the Seller/Service will repurchase the above two mortgages, if FNMA requests it.

2. TAX PENALTIES INCURRED AND CHARGED TO MORTGAGORS AND TAXES ERRONEOUSLY PAID FROM MORTGAGORS' FUNDS (SEC. 119 SERVICERS GUIDE)

(i) For at least 12 FHA direct mortgages that were closed by the Service for GNMA, the Service paid the real estate taxes after the penalty dates, with the result that tax penalties totaling \$211.55 were incurred and charged to the related mortgagors' deposit accounts. The accounts involved are shown on Exhibit A-1.

In many of the cases referred to above, the taxes were due at the time of closing the mortgage, or shortly thereafter, but the Service took no action to pay the taxes until 9 to 22 months after closing.

(ii) For Loan #31-63460, the Service disbursed \$267.24 from the mortgagor's deposit account on 8/7/68, in payment of the 2nd half 1965-66 city real estate taxes. This is an FHA direct mortgage that was closed by the Service for GNMA on 11/30/66, at which time FHA had already paid the entire 1966-67 city taxes.

Inasmuch as the 2nd half of 1965-66 taxes were due and payable in April 1966, 7 months before the mortgagor bought the property from FHA, the disbursement of \$267.24 was not the mortgagor's responsibility and should not have been charged to his deposit account.

(iii) In addition to the tax penalties incurred and charged to mortgagors on FHA direct mortgages, as shown in (i) above and on Exhibit A-1, the Servicer charged the following two mortgagors (Secondary Market Mortgages) tax penalties:

	Penalty date	Date taxes paid	Amount of penalty
FNMA loan No.:			
31-292652.....	Jan. 31, 1968	July 8, 1968	\$3.88
31-281324.....	Oct. 31, 1967	do.....	7.69

(iv) FNMA Loan #31-285647 was closed by the Seller/Servicer on 10/31/67, at which time the 1st half of the 1967-68 city taxes had presumably been paid. On 4/9/68 the Servicer paid the 2nd half of 1967-68 city taxes in the amount of \$189.36. However, on 7/24/68 the Servicer disbursed \$200.30 as the 1st half 1967-68 city taxes, and on 8/8/68 disbursed \$200.41 as the 2nd half 1967-68 city taxes. Both of the last two disbursements were charged to the mortgagor. The receipts had not been returned to the Servicer by the taxing authority, but it appears that these two disbursements were for the same taxing period covered by previous disbursements.

Mr. Katz explained that the delay in paying taxes on FHA direct mortgages (Item i above) apparently arose because the Servicer is accustomed to having current taxes handled by the title company at time of closing the mortgage. However, the FHA direct mortgages are closed by the Servicer, instead of a title company, and no provision had been made for obtainment and payment of tax bills due at time of closing.

The Servicer's procedures provided for charging tax penalties to mortgagors (Item iii), and Mr. Katz stated that the erroneous disbursements shown in item (iv) would have been discovered at the time of the annual escrow analysis in May 1969.

(a) Mr. Katz stated that for all GNMA and FNMA mortgages, the Servicer will review all tax disbursements made within the past year and reimburse the mortgagors' escrow accounts for penalties charged to the mortgagors, including those shown in (iii) above and on Exhibit A-1.

Mr. Katz also stated that the Servicer will establish procedures for the prompt obtainment and payment of current tax bills on FHA direct mortgages; and that for both GNMA and FNMA, taxes will be paid prior to the penalty date, or in any event, the penalties will not be charged to the mortgagors.

In addition, he said that for the cases shown in (ii) and (iv) above, the Servicer will deposit its own funds in the Custodial Accounts to reimburse the related mortgagor's account, and will then review the cases and follow-up to obtain refunds for credit to the Servicer. Any other similar overpayments, found in the review of taxes paid in the past year, will also be refunded to the mortgagors.

3. DELAYS IN REVERSING NSF CHECKS (SEC. 204 SERVICERS GUIDE)

Checks returned by the bank because of insufficient funds were not made good by the mortgagor or reversed on the Servicer's records until 21 to 59 days (average 44) after the checks were returned by the bank a second time. The mortgages involved are as follows:

	Date check returned by bank second time	Date check made good or entries reversed	Elapsed days
Loan No.:			
31-286271.....	May 31, 1968	July 15, 1968	45
31-286899.....	May 24, 1968	do.....	52
31-274943.....	May 17, 1968	do.....	59
31-64017.....	June 11, 1968	do.....	34
31-285945.....	May 24, 1968	June 14, 1968	21
31-274394.....	May 22, 1968	July 15, 1968	54

As a result of the above delays in reversing NSF checks, the related mortgages were not reported to FNMA as being delinquent, or were reported as being delinquent for less installments than were actually the case.

For Loan No. 286271 shown above, the NSF check covered the 4 1 and 5 1/68 installments, and at 6 25 and 6 1 installment was also unpaid. However, the Report of Delinquent Mortgages (FNMA Form 254) at 6 25 68 showed this mortgage as 1 month delinquent, instead of 3, and the Notice of Default and FNMA Form 145 (Loan Service Report) were not filed until 7/25/68 when the mortgage was reported as 115 days delinquent.

The Servicer's procedures provide for holding an NSF check, that is not made good by the mortgagor, for a period of 30 to 60 days before the entries are reversed on the ledger card.

(a) Mr. Katz stated that procedures will be established so that the Servicer will reverse NSF checks within 7 days after they are returned by the bank a second time.

2. INADEQUATE CONTROL OF DISBURSEMENTS (SEC. 204 SERVICERS GUIDE)

The Servicer's present procedures provide for the use of a signature plate in the signing of checks drawn on the FNMA and GNMA Custodial Accounts. This plate, which bears the signature of Edwin Katz, Chairman of the Board, and Harold Fisher, Treasurer, is kept in a locked safe at night but during the day it is placed in the check signing machine, which is used by the two employees who have access to and prepare the checks, and who also reconcile the monthly bank statements. The machine is not located in the immediate area occupied by either of the officers whose name appears on the signature plate.

Prior to February 27, 1968, the Servicer required that two different officers manually sign each check drawn on the FNM Account. At about that time, the check signing machine was purchased because of the volume of checks being drawn, and it has been used almost exclusively in recent months.

(a) We discussed this matter with Mr. Katz and Mr. Fisher, both of whom agreed that there is a potential danger in the Servicer's present procedure for signing checks. Mr. Katz stated that the Servicer will make a study of this matter and will change its procedures, in order to establish adequate internal control of disbursements.

5. IMPROPER HANDLING OF INSURANCE LOSS DRAFTS (SEC. 121 SERVICERS GUIDE)

We reviewed the Servicer's handling of four insurance loss settlements, in amounts of \$1,946.04, \$6,300.00, \$7,180.20 and \$10,230.91 and found the following deficiencies:

(i) For two of the losses (\$1,946.04 and \$6,300.00), the Servicer did not prepare and forward to FNMA a Form 176 (Report of Hazard Insurance Loss), or any other notification of the loss or recommendation concerning disposition of the loss proceeds. Also for these two cases, the Servicer did not complete a FNMA Form 177 (Insurance Loss Settlement).

(ii) In the two cases where FNMA was notified of the losses (FNMA Form 176), a Form 177 was not prepared or sent to FNMA until 109 and 138 days after the loss proceeds were disbursed to the mortgagor and/or contractor. In each instance, the Form 177 was prepared as the result of a follow-up letter from FNMA.

(iii) For three cases, the insurance loss drafts were not deposited in the FNMA Custodial Account until all repairs had been completed and the Servicer was ready to release the loss proceeds. (Loss drafts were received 50 to 103 days before being deposited.)

(iv) In one case, the loss proceeds (\$6,300.00) were disbursed by the Servicer 19 days prior to obtainment of FHA's written approval. (We were advised that verbal approval was received from FHA prior to release of the funds.)

(v) In the same case, the loss proceeds of \$6,300.00 were disbursed to the Insurance Adjuster, but the files do not show that the mortgagor approved the release of the funds.

(iv) In no instance did the Servicer show the collection or disbursement of the insurance loss proceeds in Column 5 of the FNMA Form 179 (Report of FNMA Custodial Account). These transactions were reported in Column 1 (Deposits for Insurance, Taxes, etc.).

Apparently the Servicer's personnel was not aware of FNMA's requirements concerning the handling of insurance loss drafts and adequate procedures had not been established.

(a) Mr. Katz stated that the operating personnel who handle insurance loss drafts will be instructed to become familiar with Sec. 121 of the Servicers Guide, and that necessary procedures will be established to assure that such loss drafts are properly handled from now on.

6. HAZARD INSURANCE POLICIES NOT HANDLED PROPERLY (SEC. 120 SERVICERS GUIDE)

We reviewed the hazard insurance policies for 50 mortgages and found the following deficiencies:

(i) Fourteen policies do not name FNMA as the mortgagee. Of these policies, 10 show United Institutional Servicing Corporation as mortgagee, 1 shows East Brooklyn Savings & Loan Assoc., 1 shows Hamburg Savings Bank, and two show no mortgagee.

(ii) As shown on the insurance policies, the following four carriers who insure FNMA mortgaged properties are not licensed to do business in the State of New York:

FNMA Number and Carrier:

31-293358: Mount Vernon Fire Ins. Co., King of Prussia, Pa.

31-293358: Citizens Casualty Co. of New York

31-240841: Allegheny Mutual Casualty Co., Meadville, Pa.

31-240841: Ambassador Ins. Co., Montpelier, Vermont

In addition, each of the four policies contains the following restricting clause, which may be unacceptable to FNMA:

"The insured warrants: That the designated location is not presently vacant or unoccupied and covenants that if it becomes vacant or unoccupied to notify the company at its office in Meadville, Pa. by certified mail within five days after the property becomes vacant or unoccupied otherwise the policy becomes null and void."

(iii) For the following two mortgages, the policies do not name the present owners as the assured:

	Owner		Date of change
	Former	Present	
FNMA No.:			
31-290756	Clinton	Negron	Sept. 10, 1968
31-299016	Jacobson	Paul	Apr. 22, 1968

(iv) For loan #31-281024 (Richardson), the policy written by The Hartford Insurance Group is not countersigned.

(v) For the following two mortgages, the insurance coverage is materially in excess of the unpaid principal balance of the mortgages:

	Unpaid balance, Aug. 25, 1968	Amount of insurance	Excessive coverage
FNMA No.:			
31-276697	\$23,276.03	\$38,850	\$15,573.97
31-261582	22,969.18	34,500	11,530.82

The deficiencies shown in items (i), (iii) and (iv) above resulted from inadequate review of hazard insurance policies and lack of procedures to obtain endorsements where necessary.

Concerning item (ii), Mr. Katz said that these companies (excess line insurance companies) were the only ones who would insure these properties, and it was a question of accepting them or not obtaining insurance. The Servicer had previously notified FHA that it had been unable to obtain insurance coverage on these properties, at reasonably competitive rates. However, the files do not show that FNMA was notified that insurance had been placed with companies not licensed in New York State, or that the policies provided for cancellation of coverage if the mortgagor failed to notify the company within 5 days after the property became vacant or unoccupied.

(a) In regard to items (i) (iii) and (iv), Mr. Katz stated that the Servicer is trying to hire additional experienced personnel in order to strengthen its insurance department. He also said that all FNMA and GNMA insurance policies will be reviewed and corrective action taken in cases where FNMA or GNMA is not properly named as the mortgagee, the present owner is not named as the assured, or policies are not countersigned.

Concerning item (ii), Mr. Katz said that it is anticipated that in November 1968, the Insurance Department of the State of New York will provide insurance, covering uninsurable properties, on an assigned risk basis. He also stated that this will eliminate the need of placing insurance with the excess line companies, who are not licensed to do business in the State of New York, and who have restricting clauses similar to the one shown above. Providing insurance on an assigned risk basis will result in premiums slightly higher than standard rates but considerably less than is now charged by the excess line companies.

In the meantime, the Servicer will advise FNMA and GNMA of all policies written by companies not licensed in New York State, or containing restricting clauses as shown in (ii) above.

Mr. Katz stated also that in the review of all insurance policies, the reason for materially excessive coverage (item v) will be determined. If the mortgagor has specifically requested such coverage, this request will be obtained in writing and placed in the files.

7. HAZARD INSURANCE REFUNDS NOT OBTAINED AND MORTGAGOR ERRONEOUSLY CHARGED WITH INSURANCE DISBURSEMENTS (SEC. 120 SERVICERS GUIDE)

(i) For the following mortgages, hazard insurance policies were cancelled and new policies were written and paid for out of the related mortgagor's deposit account. However, neither the mortgage ledger card or the Servicer's files show that return premiums on the cancelled policies were obtained for credit to the mortgagor:

FNMA No.:	Policy canceled		Date canceled
	Period	Premium paid	
31-249201-----	July 8, 1968-71-----	\$100, Aug. 8, 1968-----	Aug. 1, 1968
31-64124-----	Jan. 30, 1967-70-----	61.34 (1 year) Feb. 2, 1968-----	May 15, 1968
31-239866-----	May 19, 1968-71-----	103.00 (3 years) May 21, 1968-----	May 28, 1968
31-281024-----	Sept. 15, 1967-70-----	33.80 (1 year) Sept. 15, 1967-----	Apr. 28, 1968

The Servicer has no follow-up procedure for obtainment of insurance refunds.

(ii) For loan #31-64015, the following disbursements for hazard insurance were charged to the mortgagor's deposit account in recent months:

Date:	Amount
April 10, 1968-----	\$26. 00
June 26, 1968-----	57. 70
July 16, 1968-----	57. 50

The \$57.70 disbursed 6/26/68 appears to be a proper charge but the files do not support the reason for the other charges.

(a) Mr. Katz agreed that the Servicer will review all FNMA and GNMA insurance policies and mortgage history runs (ledger cards) for 1968 and obtain refunds for any cancelled policies, or erroneous charges to mortgagors accounts, including those shown above.

He also stated that procedures will be established so that follow-up will be made to obtain refunds on policies cancelled from now on.

DEFICIENCIES ON WHICH CORRECTIVE ACTION WAS NOT ARRANGED

ENDORSEMENT TO FIDELITY BOND NOT OBTAINED (SEC. 101 SERVICERS GUIDE)

The Servicer's fidelity bond does not have an endorsement to provide that FNMA and GNMA be advised if the fidelity bond is cancelled for any reason, and we found no indication that the insurer had been requested to advise FNMA and GNMA in the event of such cancellation.

The Servicer was unaware of the above requirement which was included in Servicers Guide Change No. 39 dated April 20, 1966.

Also, the bond is subject to a \$1,000.00 deductible for each loss.

(a) During our visit, Mr. Katz obtained endorsements from the insurer, showing that FNMA and GNMA will be promptly advised if the Servicer's fidelity bond is cancelled for any reason.

Mr. Katz said the Servicer would request FNMA's permission to retain the \$1,000 deductible clause in its bond.

9. CHECKS ON FNMA CUSTODIAL ACCOUNT NOT DRAWN IN DATE SEQUENCE AND TRANSACTION DATES INCORRECT (SEC. 202 SERVICERS GUIDE)

For the reporting month ended 8/25/68, there were approximately 100 checks (prenumbered) drawn on the FNMA Custodial Account that were not in date order sequence. These discrepancies occurred on various dates. A similar situation exists each month with some checks drawn in one month having lower check numbers than checks drawn in prior months. Also some checks dated after the monthly cutoff (25th) are reported on the FNMA Form 179 (Report of FNMA Custodial Account) as having been drawn in the current month, and are reported as outstanding checks.

In addition, the Servicer's procedures provide that mortgage history runs show posting dates for disbursements, rather than actual dates of disbursements. For disbursements processed by Financial Services, Inc. (service bureau), disbursements are charged to the related mortgagors' deposit funds on the date of processing, but checks may not be drawn and dated until 2 or 3 business days later. For disbursements processed by the Servicer, checks are drawn and dated on the date of processing, but charges against the mortgagor's account are dated one or two business days later, when they are posted by the service bureau.

The Servicer's procedures for drawing checks out of date sequence and for use of posting dates instead of actual disbursement dates presented numerous problems in our reconciliations and in the review of disbursements, and increased our audit time to some extent.

(a) Although Mr. Katz stated that the Servicer will study possible ways in which it might draw checks in date sequence, he was unable to assure us that this can be done, with the procedures now in use with the service bureau. One possibility that he mentioned was having a separate series of checks for disbursements processed by the Servicer and by the service bureau.

Mr. Katz also said that the Servicer will consider procedural changes in order to show on the mortgage history runs the actual disbursement dates, instead of posting dates. However, at the time of our visit, we were not assured that actual disbursement dates will be shown in all instances.

TAX PENALTIES CHARGED TO MORTGAGORS (FHA DIRECT MORTGAGES CLOSED FOR FNMA)

GNMA loan No. (prefix 31)	Settlement date	Penalty date	Date Taxes paid	Amount of penalty ¹
62681	Oct. 6, 1966	Oct. 31, 1966	Aug. 7, 1968	\$16.38
63931	Jan. 13, 1967	do	do	19.62
63936	Dec. 30, 1966	do	do	19.11
64020	Jan. 25, 1967	Apr. 30, 1967	do	14.41
64123	Jan. 30, 1967	do	do	11.04
65053	Apr. 24, 1967	Oct. 31, 1966 and Apr. 30, 1967	do	35.32
65261	May 11, 1967	do	do	30.18
65402	May 26, 1967	do	do	20.42
65271	May 12, 1967	Apr. 30, 1967	do	20.16
66808	Sept. 29, 1967	Oct. 31, 1967	do	10.93
67092	Oct. 30, 1967	do	do	9.36
69097	Mar. 28, 1968	Apr. 1, 1968	May 29, 1968	4.62
Total				211.55

¹ Does not include portion of the penalty if any, paid by FHA.

In our initial review, we examined the Seller/Servicer's records on 12 mortgages sold to FNMA within the last nine months. All of these mortgages were either in foreclosure or were at least 3 months delinquent at 8/25/68. According to the Seller/Servicer's records, two of these twelve mortgages were not current at the time of submission to FNMA.

Because of the two cases mentioned above, we expanded our audit to include an additional 23 mortgages sold to FNMA within the last two years. All of these mortgages had either been foreclosed or were at least 5 months delinquent at 8/25/68, but we found no indication that any of them were delinquent at the time of submission to FNMA.

In all we examined 35 cases and found inaccurate certifications in 2 cases, as shown in Finding No. 1.

We suggested that the Seller/Serviceer furnish us with a letter concerning the two inaccurate certifications, including an explanation of the procedures followed in submitting mortgages to FNMA. Attached is a copy of a letter dated October 21, 1968 from Mr. Edwin Katz, Chairman of the Board, concerning the above procedures.

[Exhibit B—Government National Mortgage Association, Examination and Audit Division, Field Office, Philadelphia]

FINDINGS AGREED TO CLEAR

10. RECORDS OF COLLECTION EFFORTS NOT ADEQUATE AND REPORTS TO FNMA INCOMPLETE OR NOT FILED ON TIME (SEC. 106 SERVICERS GUIDE)

(i) It has not been the Serviceer's practice to retain copies of letters to delinquent mortgagors or to make notations on the delinquency follow-up cards that letters have been written.

(ii) Loan Service Reports (FNMA Form 145) for 5 delinquent mortgages were incomplete inasmuch as some of the blocks under "Servicing History" were left blank and dates of face-to-face contacts, phone calls, and letters were not shown. In some cases, the Form 145 showed "weekly letters written" but as shown in (i) above, the Serviceer made no record of these letters and did not retain copies.

(iii) For 2 cases, the FNMA Form 170 (Statement of Account for Liquidation) was not completed and sent to FNMA 15 days after the date of the 10-Day Letter (FNMA Form 164), but was sent 22 days after the date of Form 164. Also, in the case of an abandoned property, the Serviceer did not send FNMA Form 170 at the same time that it recommended foreclosure on Form 145, but delayed sending this form until after FNMA wrote a follow-up letter at a later date.

(a) Mr. Katz, Chairman of the Board, stated that from now on (i) notations will be made on the delinquency follow-up cards of letters written, and copies of letters (other than form letters) will be retained in the mortgagors' files; (ii) all applicable blocks on Forms 145 will be completed properly; and (iii) Forms 170 will be filed on time.

11. PAYOFF NOT PROPERLY HANDLED (SEC. 209-D SERVICERS GUIDE)

At the time that FNMA Loan No. 31-240520-AJ (Harmon) was paid in full, the Serviceer prepared and sent to FIIA the Notice of Termination of the Insurance Contract (FIIA Form 2344) on which it reported that a Firm Commitment for a new FIIA insured mortgage had been obtained, and the new FIIA number was shown. However, through oversight the Serviceer erroneously transmitted to FIIA a 1% prepayment penalty of \$170.00 (part of a check for \$233.00 dated 3/26/68), whereas no prepayment penalty was due.

The Notice of Audit received from FIIA did not mention the \$170.00 overpayment, and no refund accompanied the Notice.

(a) This was discussed with Mr. Richard Levine, Assistant Treasurer, who then wrote to the Federal Housing Administration on October 11, 1968, requesting a refund of \$170.00. He agreed to follow-up on this matter and return the refund to the mortgagor, if and when it is received.

12. UNAUTHORIZED REFUNDS TO MORTGAGORS (SEC. 207 SERVICERS GUIDE)

During the last six months, the Serviceer refunded excess escrow funds to three mortgagors. In one instance, the mortgagor requested return of his excess escrow funds (\$32.30) disclosed in the Serviceer's annual analysis; in a second case excess escrow funds of \$355.10 were apparently collected at the mortgage closing and were refunded to the mortgagor after FNMA purchased the mortgage; and in the other case, the files did not show any information concerning the refund of \$74.80.

The Serviceer seemed unaware that FNMA does not permit refunds of excess escrow funds.

(a) Mr. Katz stated that from now on the Serviceer will not refund excess escrow funds to mortgagors, but instead, will apply them in accordance with Section 207 of the Guide.

13. MORTGAGORS' ACCOUNTS WITH EXCESSIVE BALANCES (SEC. 207 SERVICERS GUIDE)

For at least 3 mortgages (Loan Nos. 231880, 63431 and 231702), the individual escrow balances are \$59.00, \$74.00 and \$367.00 in excess of the current needs, after taking into consideration that FNMA and GNMA permit a servicer to retain excessive amounts equal to two full monthly installments in a mortgagor's deposit account.

The Servicer has a procedure to analyze escrow accounts each year by use of the service bureau's electronic data processing equipment. All accounts were analyzed at April 1, 1968 and a copy of the analysis was furnished the mortgagors. For mortgages with insufficient escrow funds, the monthly installments were properly increased so that the shortages would be collected over the next 12 months. However, the Servicer's procedures do not provide for applying the excess escrow funds that exceed two full monthly installments.

(a) Mr. Katz stated that for the above mortgages which had escrow balances in excess of the current needs by more than two monthly installments, the Servicer will apply the excesses as regular installments or as additional principal payments.

He also stated that procedures will be established to properly handle mortgagors' excessive escrow funds that are disclosed in the annual escrow analysis.

APPENDIX TO AUDIT REPORT

SERVICER'S HANDLING OF DELINQUENCIES

A delinquency report on the Servicer's total portfolio was not available. Mr. Richard Levine, Servicing Manager, states that the Servicer uses the same delinquency procedures for other investors, FNMA and GNMA, except the first notices are not mailed for other investors until about the 17th of the month.

Mr. Levine attributes the Servicer's high delinquency ratio to the marginal credit of mortgagors who are buying older properties in many of the "ghetto" areas of New York City. He stated that FHA is now approving mortgages that two or three years ago would not have been acceptable, either from the standpoint of the mortgagor's credit rating or property requirements.

COMMENTS

We found that in several cases where hazard insurance policies had not been renewed, or had been cancelled by the insurance carriers, the Servicer had been unable to obtain insurance at reasonably competitive rates. The Servicer had then obtained insurance coverage through excess line companies, at rates which in our opinion, were not reasonable.

The following four mortgages show a comparison of the rates charged:

	Amount of coverage	Annual premium
FNMA No.:		
276697.....	\$21,000	\$27.00
261582.....	17,500	25.00
250610.....	120,000	500.00
240841.....	110,000	246.74

¹ Excess line insurance company.

In the case of Loan Nos. 250610 and 240841 above, the Servicer notified FNMA on May 2, 1968 that it had been unable to place the insurance with any company other than an excess line insurance company; and that as a result, the insurance premiums have been substantially increased. However, we believe the Servicer should have furnished more specific information to FNMA, including the fact that annual premiums of approximately \$30.00 had been increased to approximately \$250.00 for the same amount of coverage.

Because FNMA has not informed the Servicer of its policy concerning the obtainment of hazard insurance at rates which are not reasonably competitive, we did not include this matter as a finding. We believe the Servicers Guide does not include specific instructions on this subject.

We suggest that the Servicer be instructed to contact FNMA prior to obtaining hazard insurance at rates which are not reasonably competitive.

Audit Performed by: *Thomas E. Judd.*

UNITED INSTITUTIONAL SERVICING CORP.,
New York, N.Y., February 6, 1969.

Mr. J. R. RILEY,
Agency Controller, Federal National Mortgage Association, South Broad Street,
Philadelphia, Pa.

DEAR MR. RILEY: We are pleased to advise that our internal audit of GNMA & FNMA ledgers has been completed and we are crediting mortgagors where penalties were incorrectly charged to their account. We are also making the necessary transfers where accounts were over charged for insurance.

Sincerely yours,

EDWIN KATZ,
Chairman of the Board.

JANUARY 21, 1969.

File
LOAN SUPERVISOR,
United Institutional Servicing Corp.,
FNMA Audit, Servicer's Reply dated January 15, 1969.

With respect to the Servicer's reply of January 15, 1969 concerning finding No. 6, Hazard Insurance Policies Not Handled Properly, we are of the opinion the procedure outlined by the Servicer is adequate and proper. Additionally, the procedure is auto-correcting. Under the circumstances, the matter is closed and the finding cleared.

THERESA McKEE.

Concur.

NORBERT C. GREENE,
Deputy Assistant Agency Manager.

Approved.

HARRY F. BICKFORD,
Assistant Agency Manager.

UNITED INSTITUTIONAL SERVICING CORP.,
New York, N.Y., January 15, 1969.

Re FNMA Audit
MR. KEVIN E. KEEGAN,
Agency Manager,
Federal National Mortgage Association,
Philadelphia, Pa.

DEAR MR. KEEGAN: In reply to your letter of December 20, 1968, we beg to advise as follows:

Finding 1: Guy FNMA No. 31-291703 KK: We shall reimburse FNMA if they should suffer any loss resulting from foreclosure.

Finding 2: We have an employee now devoting his entire time to FNMA and FNMA tax payments. Any charge which has been incorrectly made to a mortgagor's account will be adjusted.

Finding 7: We have hired an experienced insurance man who formerly worked for a New York Savings Bank and have also in effect an all-risk physical loss or damage policy which will eliminate the necessity for record keeping for all investors except FNMA and GNMA (a copy of this policy together with copy of letter sent to the investors are enclosed).

We feel this coverage will be extremely advantageous to FNMA and GNMA since many of the mortgages owned by these agencies are in areas where it is frequently difficult to place standard type insurance. This is particularly true with reference to VA loans where you would not have complete protection even though timely notice had been forwarded to the VA.

Finding 6: In the future where we require policies from excess line companies or where carriers are not licensed to do business in New York State or where policies containing restricting clauses, we shall request your approval before accepting same. We do not anticipate any appreciable amount of this type of insurance being placed in the future, since most of the policies will be written through New York Property Insurance Underwriting Association. Where we feel the amount of insurance requested by a mortgagor is in excess of the requirements, we shall insist on a letter from the mortgagor authorizing us to place the insurance for this excess amount.

Finding 9: We have made arrangements for the IBM Servicing Bureau to date the work in process so that it will enable us to prepare our checks in numbered order. Where batches of tax bills and insurance bills are sent, we are asking for the dating of the ledger posting 72 hours ahead so that when the items are returned and checked by us, they will be drawn as of the posting date.

We, as well as you, are very concerned about the delinquency ratio. One of the problems is that the owners of most of these properties are of minority groups who have had no experience in home-ownership in the past and do not have a proper regard for their obligations. They are also very difficult to reach during the day as both husband and wife works. In addition to a new field man, we have added one man in the office with a Spanish-speaking secretary.

The office people work on staggered hours and are making many of their calls early in the morning before the mortgagors leave for work or in the evening when they return. We have difficulty in having our field men make personal visits at these properties after dark.

The writer has also instructed the Servicing Department to take a firmer line and we trust that these methods will result in a lower delinquency ratio.

Sincerely,

EDWIN KATZ,
Chairman of the Board.

DECEMBER 23, 1968.

Alexander J. Sternberg, Director, Exam. and Audit
FNMA—Washington

Arthur W. Miller, Agency Director, Examination and Audit, Philadelphia
Audit of Servicer
United Institutional Servicing Corporation
New York, N.Y.

At the Agency's request, representatives of the captioned Servicer visited the Agency on December 16, 1968 to discuss the findings reported in our recent audit.

Attached is a copy of the Servicer's letter of November 27, 1968 concerning the clearance of the findings and a copy of the Agency Manager's letter of December 20, 1968, following the meeting with the Servicer.

At the above meeting, which I attended, the Servicer's representatives agreed to clear all of the items mentioned in the Agency Manager's letter, including reimbursement to FNMA for any loss for foreclosure of loan number 31-291703-KK (Inaccurate Certification reported in Finding No. 1).

(Attach.)

ARTHUR W. MILLER.

DECEMBER 20, 1968.

Mr. EDWIN KATZ,
Chairman of the Board,
United Institutional Servicing Corp.,
New York, N.Y.

DEAR MR. KATZ: This will confirm the results of the meeting held in this office on December 16, 1968 on the Association's audit. The findings taken by our auditor are listed on Exhibit A, which is in your possession.

Concerning Finding 8, a waiver of Section 101 of the Servicers Guide is granted in your company's present fidelity coverage, which contains a \$1,000.00 deductible provision.

The serious findings which caused us to classify your records and procedures inadequate are cleared with the following exceptions:

Finding 1, Guy, FNMA No. 31-291703 KK—You agreed to reimburse the Association if we incur a loss not recoverable from FHA resulting from our present foreclosure action.

Findings 2 and 7—You are asked to notify the Association when your review of ledger cards is complete and mortgagors' accounts reimbursed.

Finding 6—Forward a request for approval to retain excess line carriers where premiums were paid, including name of carriers not licensed to do business in New York State or policies contain restricting clauses. Also, letters from mortgagors requesting hazard insurance coverage in excess of our requirements must be placed in the mortgagors' files.

After discussing your suggestion to clear Finding 9, you decided the procedure initiated will differ from your letter of November 27, 1968; therefore, advise in detail what your procedure will be and when it is put in operation.

A matter which causes us great concern is your unsatisfactory delinquency ratio. We would appreciate your advice on the steps you plan to take with your collection procedures to reduce and maintain the delinquency percentage at an acceptable level.

As you were previously advised, no closings for FHA-GNMA loans will be assigned to your company until there is an overall improvement in your servicing performance.

Sincerely yours,

KEVIN E. KEEBAN,
Agency Manager.

DECEMBER 19, 1968.

File

Loan Supervisor, Audit,
United Institutional Servicing Corp.,
New York, N. Y.

On Monday, December 16, 1968, a meeting was held in this office to discuss the inadequate rating resulting from the Association's audit.

The following Servicer's officials and Agency personnel attended the meeting:

United Institutional Servicing Corp.: Edwin Katz, Chairman of the Board,
Michael Kelly, Assistant Servicing Manager.

FNMA: Harry F. Bickford, Assistant Agency Manager, Arthur W. Miller, Agency Director, Examination and Audit Division, Thomas R. Kingsley, Chief, Accounting Operations Branch, Theresa M. McKee, Loan Supervisor.

Finding 1—*Inaccurate Certifications That All Matured Mortgage Installments Had Been Paid by the Mortgagor.* The Servicer was advised that it will be required to absorb any foreclosure loss on Quay, FNMA No. 31-291703 KK. On Quarts, FNMA No. 31-295224 KK, a current account, no action will be taken as a result of the inaccurate certification. A memo dated December 18, 1968 to the Controller's Division advised of our election to indemnify the Association for the foreclosure loss on FNMA No. 31-291703 KK. Mr. Katz confirmed a procedure is now in effect to prevent recurrence of inaccurate certifications by United Institutional Servicing Corp.

Finding 2—*Tax Penalties Incurred and Charged to Mortgagors and Taxes Erroneously Paid From Mortgagor's Funds.* The Servicer's statement to our auditor and its letter of November 27, 1968 are satisfactory. However, the Agency will request notification when a review of the ledger cards for taxes paid in the past year and refunds to the mortgagors' accounts is accomplished.

Finding 3—*Delays in Reversing MSF Checks;* **Finding 4—*Inadequate Control of Disbursements;*** and **Finding 5—*Improper Handling of Insurance Loss Drafts.*** United's statement to our auditor and its letter of November 27, 1968 satisfactorily clear these findings.

Finding 6—*Hazard Insurance Policies Not Handled Properly.* The Servicer's letter of November 27, 1968 advises the Insurance Department of the State of New York now provides for assigned risk. Further, the assigned risk rate is about the same as the normal rate and considerably less in the premium charged by excess line companies. United Institutional Servicing Corp. will request permission to retain insurance with excess line companies where premiums have been paid, forwarding the name of the carrier and type of policy. When these policies expire, renewal of coverage will be placed on an assigned risk basis. Concerning insurance in excess of the unpaid principal balance of the mortgage, subparagraph (v) of the finding, Mr. Katz advised the amount of the insurance coverage requested by the homeowner frequently exceeds the unpaid amount of the mortgage. The Agency requires these requests be in writing and maintained in the mortgagor's files, and the Servicer's officials were advised of this requirement.

Finding 7—*Hazard Insurance Refunds Not Obtained and Mortgagor Erroneously Charged With Insurance Disbursements.* The Servicer's statement to the auditor and its letter of November 27, 1968 are satisfactory. However, the Agency wishes to know when the review is complete and mortgagor's accounts reimbursed, where applicable.

Finding 8—*Endorsement to Fidelity Bond Not Obtained.* United requested a waiver of Section 101 of the Servicers Guide. The Agency Manager approved the Servicer's fidelity coverage with a \$1,000.00 deductible provision on December 18, 1968, and United will be notified accordingly.

Finding 9—*Checks on FNMA Custodial Account Not Drawn in Date Sequence and Transaction Dates Incorrect.* It was felt United's solution to clear finding 9 would

be cumbersome; therefore, the Servicer will advise what arrangements were made with Financial Services to clear this finding and when the procedures were placed in effect.

United was removed from the list of closing agents for FHA-GNMA direct loans.

The unsatisfactory delinquency ratio for FNMA-GNMA loans was also discussed. Mr. Katz will personally investigate the unusually high delinquency percentage.

THERESA MCKEE.

DECEMBER 18, 1968.

Riley—Agency Controller
Deputy Assistant Agency Manager
Audit of Servicer
United Institutional Servicing Corporation
New York, New York

Attached is a copy of the Manager's letter to United Institutional Servicing Corporation regarding the audit and subsequent visit to this office by the Servicer's officials to discuss the audit report.

The Agency Manager elected to require the seller indemnify the Association for any loss incurred on FNMA No. 31-291703 KK (Guy) presently in foreclosure.

Please post your records to notify the Loans Division of any loss after settlement was received from FHA.

NORBERT C. GREENE.

(Attachment)

DECEMBER 18, 1968.

Bickford—Assistant Agency Manager
Attention: Greene—Deputy Ass't Agency Manager
Loan Supervisor
Audit of Servicer
United Institutional Servicing Corp.
New York, New York

Finding 8 of the Agency's audit reported the Servicer's fidelity coverage is subject to a \$1,000.00 deductible. United requested a waiver of Section 101 of the Servicers Guide.

Pursuant to FNMA Manual Section 2306, I recommend acceptance of the fidelity bond with the deductible clause since the deductible is commensurate with the Servicer's financial condition and the Association's interest are adequately protected.

The Servicer's financial condition is as follows:

As of December 31, 1967:

Assets.....	\$13, 880, 617. 10
Liabilities.....	12, 798, 959. 43
Net Worth.....	1, 081, 657. 67

THERESA MCKEE.

(Concur.)

NORBERT C. GREENE,
Deputy Assistant Agency Manager.

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
OFFICE OF EXAMINATION AND AUDIT,
Washington, D.C., December 10, 1968.

Memorandum for the files.

Prepared by: Alexander J. Sternberg

Subject: Inaccurate Certification, United Institutional Servicing Corporation
New York, New York

A recent audit of this Servicer disclosed that on two mortgages it had certified that all matured installments had been paid on due dates or shortly thereafter when, in fact, an installment on each had not been paid at the time of offering and submission of the mortgage to FNMA.

The Seller explained that the misrepresentation on the first submission resulted from an insufficient funds check that was returned to the homeowner after veri-

fication of the payment, and on the second mortgage submitted the error was committed by the person verifying the payment. The method of verification has since been changed by this Seller. Ledger sheets are now reproduced at the time of sale and instructions have been given that unrecorded payments are not to be added in.

The Philadelphia Agency Manager accepted the explanation furnished by the Seller.

In view of the above we consider this matter closed.

ALEXANDER J. STERNBERG,
Director of Examination and Audit.

DECEMBER 6, 1968.

Mr. EDWIN KATZ,
Chairman of the Board, United Institutional Servicing Corporation, New York, N.Y.

DEAR MR. KATZ: We acknowledge receipt of your letter of November 27, 1968 outlining corrective actions taken by your company as a result of the Association's audit.

Because of the number and seriousness of the findings taken at the audit, we feel that a personal discussion with you and your operating personnel would be beneficial to both of us. Would you, therefore, please arrange to visit this office and let us know the date and time that you will arrive.

Sincerely yours,

KEVIN E. KEEGAN,
Agency Manager.

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
OFFICE OF EXAMINATION AND AUDIT,
Washington, D.C., December 4, 1968.

Memorandum for the files

Prepared by: Alexander J. Sternberg

Subject: Inaccurate Certification

United Institutional Servicing Corporation
New York, New York

A recent audit of this Servicer disclosed that on two mortgages it had certified that all matured installments had been paid on due dates or shortly thereafter when, in fact, an installment on each had not been paid at the time of offering and submission of the mortgage to FNMA.

The Seller explained that the misrepresentation on the first submission resulted from an insufficient funds check that was returned to the homeowner after verification of the payment, and on the second mortgage submitted the error was committed by the person verifying the payment. The method of verification has since been changed by this Seller. Ledger sheets are now reproduced at the time of sale and instructions have been given that unrecorded payments are not to be added in.

The Philadelphia Agency Manager accepted the explanation furnished by the Seller.

In view of the above we consider this matter closed.

ALEXANDER J. STERNBERG,
Director of Examination and Audit.

UNITED INSTITUTIONAL SERVICING CORP.,
New York, N.Y., November 27, 1968.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT,
*Government National Mortgage Association,
Philadelphia, Pa.*
(Attention: Mr. Kevin E. Keegan, Agency Manager).

GENTLEMEN: In reply to your letter of November 19, 1968 with reference to your audit report, we beg to advise as follows:

As to Par. 2 (i): As your auditor stated, it is the custom of the title companies at the time of closing to insure the fact that all taxes have been paid. No thought was given to the fact that on the direct FNMA loans no title company was involved and therefore no check was made to see if there were any arrears of taxes until such time as we received a report from O'Flynn & Verity, our tax searchers.

On all subsequent direct FNMA mortgages, we will request O'Flynn & Verity to search the title immediately after the closing.

As to Par. 2 (ii): An application for a refund is being made to the proper taxing authorities. In the meantime, we are reimbursing the mortgagor's account with the amount disbursed.

As to Par. 2 (iii): All penalties referred to have been refunded.

As to Par. 2 (iv): The mortgagor's account is being credited with the amount of over-payment and we are making application to have the item refunded by the tax authorities.

We will arrange to review all the taxes and disbursements for the past year and will reimburse any amount due the mortgagor. At the time of closing, O'Flynn & Verity are instructed to obtain all future bills for us on all of our cases. Inasmuch as they are the leading tax agency, we assume that the bills will be sent to us in timely manner.

As to Par. 3: Our procedure has been changed to provide that a return check will be redeposited and, if it is returned the second time, entry will be reversed within seven days after they are returned by the bank.

As to Par. 4: The signature plate will be kept in a safe in our Treasurer's office and will be given to an employee for the purpose of check-writing. This employee will be other than those who prepare the checks and handle the monthly bank statements. In addition, all plate-writing checks will have a small initial of a proper officer and the banks will be informed to look for this initial.

As to Par. 5(a): The Insurance Department and other personnel have been requested to read Section 121 of the Service's Guide and to familiarize themselves with the requirements thereof. The necessary procedures have been established so that loss drafts will be properly handled in the future.

As to Par. 6(i): The writer has been advised by the insurance section that all endorsements had been ordered and received for FNMA but in some instances they were not attached to the policies.

As to Par. 6(ii): Insurance coverage has been a great problem in certain areas of New York. As a result, we have been unable to obtain coverage from insurance companies licensed to do business in the State of New York. To obtain coverage for FNMA, we have accepted policies from carriers not licensed to do business in this State. We realize this form of coverage is not satisfactory but it was the best type of coverage we were able to obtain.

As to Par. 6(iii): Request for endorsement changing the ownership to the present owner has been made.

As to Par. 6(iv): We have requested Hartford Fire Insurance Company to counter-sign the policy.

As to Par. 6(v): We carry the amount of insurance requested by the home-owner. Frequently, this is in an amount far in excess of the unpaid amount of the mortgage. On occasions, where the home-owner feels replacement of the property is much greater than the market value, it is not our practice to dispute this with the home-owner inasmuch as, if a loss were to take place and it happened that the insurance company determined the replacement value was greater than the amount of insurance presently on the property, the home-owner would look to us.

The Insurance Department of the State of New York now provides for assigned risks and therefore the problem of not being able to obtain insurance, should be solved except in those instances where the buildings are in poor condition. At the present time, the assigned-risk rate is about the same as the normal rate and considerably less than that being charged by excess-line companies.

UISC has made application for coverage of our investors so as to eliminate record keeping of all policies. We understand that FNMA and GNMA have not yet approved this procedure but our other investors have indicated that they are very much in favor of it. This will substantially reduce our insurance record-keeping and our present force will then devote themselves entirely to FNMA and GNMA insurance records and all necessary procedures will be closely followed.

As to Par. 7(i): A follow-up procedure has been established.

As to Par. 7(ii): A review will be made of the charges for insurance and refunds will be obtained on cancelled policies. In the meantime, we will deposit funds in the accounts to make up for any charges that were erroneously posted.

As to Par. 8: At the time of our renewal policy, we found that the surety companies were reluctant to issue policies unless the first \$1,000.00 of loss was absorbed by the servicer. We had no alternative but to accept this form and we now request that FNMA and GNMA approve the bond with the \$1,000.00 deduction on each loss. A review of our balance sheet will disclose that this company has a capital and surplus in excess of \$1 million and therefore \$1,000.00 deductible is not an item which in any way could result in a loss to FNMA and GNMA.

As to Par. 9: Due to the fact that our disbursements are entered on the mortgagor's ledger sheet prior to the preparation of the check, and the date appearing on the ledger is the date when the disbursements requests are forwarded to the tab division, checks are frequently drawn as of a later date than those which have been disbursed where no ledger posting is required. The solution we suggest would be to have the checks run in two sequences of numbers—one for ordinary transactions and the other for transactions which are charged to the mortgagor's account. We believe this will eliminate checks being drawn out of order.

We assure you that closer scrutiny by senior management will result in greater conformity to FNMA regulations. We are pleased that you called these items to our attention and we commend your examiner for the expeditious and fair manner in which he conducted the examination.

Yours very truly,

EDWIN KATZ,
Chairman of the Board.

NOVEMBER 21, 1968.

Keegan, Agency Manager—GNMA—Philadelphia
Att: Bickford, Asst. Agency Manager (Loans)
Miller, Agency Director, Exam. and Audit, Philadelphia
Audit of Servicer
United Institutional Servicing Corporation
New York, N.Y.

In our audit report dated November 7, 1968, concerning the captioned Servicer, we reported (Finding No. 8) that the Servicer's fidelity bond is subject to a \$1,000.00 deductible, and that Mr. Edwin Katz, Chairman of the Board would request FNMA's permission to retain the \$1,000.00 deductible clause in its bond. We recommended that the Servicer's request be referred to the Washington Office for a specific waiver.

FNMA Manual Section 2306 was recently changed to provide that Agency Managers may now accept a bond containing a deductible clause, providing they are satisfied that the amount of the deductible is commensurate with the Servicer's financial condition and FNMA's interests are adequately protected. In view of this, we now recommend that Agency Management give favorable consideration to the Servicer's request.

ARTHUR W. MILLER.

NOVEMBER 19, 1968.

Bickford—Assistant Agency Manager.
Chief—Accounting Operations Branch.
Audit of Servicer,
United Institutional Servicing Corporation,
New York, New York.

Pertaining to Finding No 9, the following should be included in the letter to the Servicer:

Checks on the FNMA Custodial Account must be drawn in date sequence, and the history run must show the actual disbursement dates. Please advise when this procedure was begun.

THOMAS R. KINGSLEY.

EXHIBIT 8

Listing of Attorneys Representing FNMA in Foreclosure Actions

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
OFFICE OF THE GENERAL COUNSEL,
Washington, D.C., June 5, 1972.

HON PHILIP A. HART,
Chairman, Subcommittee on Antitrust and Monopoly, Committee on the Judiciary of the Senate, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Pursuant to the subpoena issued by you as Chairman of the Subcommittee on Antitrust and Monopoly, Committee on the Judiciary of the Senate of the United States, which was served May 24, 1972, we herewith furnish a table showing the names and addresses of attorneys who have represented the Federal National Mortgage Association in foreclosure proceedings since January 1, 1971.

Sincerely yours,

JAMES E. MURRAY,
Vice President and General Counsel.

ALABAMA

- Wilson, Propst & Stewart, P.O. Box 2066, 822 Leighton Avenue, Anniston, Alabama, 36201.
- J. Connor Owens, Jr., P.O. Box 253, Bay Minette, Alabama, 36507.
- James A. Holliman (Saunders & Holliman), 1724 Third Avenue, North, Bessemer, Alabama 35020.
- Levine, Fulford, Gwaltney & Pope, 433 Frank Nelson Building, Birmingham, Alabama 35203.
- Longshore & Longshore, 423 Frank Nelson Bldg., Birmingham, Alabama 35203.
- C. H. Erskine Smith 1200 City National Bank Building, Birmingham, Alabama 35203.
- Curry & Kirk, Drawer A-B, Carrollton, Alabama 35447.
- Edward P. Turner, P.O. Drawer 130, Chatom, Alabama 36518.
- Pitts and Latham, 409 Lay Dam Road, Claton, Alabama 35045.
- Wallace & Ellis, P.O. Box 587, Columbiana, Alabama 35143.
- Thompson & Hartwig, Second Floor, Fuller Bldg., Cullman, Alabama 35055.
- Mrs. Ruth S. Sullivan, Courthouse Square, Dadeville, Alabama, 36853.
- Hardwick, Hause & Segrest, North Lena Street, Dothan, Alabama, 35020.
- Robert E. Cannon, P.O. Box 177, 415 W. Davis Street, Elba, Alabama, 36323.
- Jackson W. Stokes, P.O. Box 356, Elba, Alabama, 36323.
- T. Eugene Burts, Suite 209, Greater Alabama Bldg., Florence, Alabama, 35631.
- Edward L. Colebeck, Suite 105, First Federal Savings & Loan Building, Florence, Alabama, 35630.
- Richard C. Hunt, Room 214, Courthouse, Fort Payne, Alabama, 35967.
- John Wear, King Building, P.O. Box 153, Fort Payne, Alabama, 35967.
- James F. Hinton, 823 Forrest Avenue, Gadsden, Alabama, 35901.
- Rains, Rains & McCurley, P.O. Box 576, 823 Forrest Avenue, Gadsden, Alabama, 35901.
- Adams, Gillmore & Adams, Grove Hill, Alabama, 36451.
- T. Watrous Garrett, Main Street, Grover Hill, Alabama, 36451.
- John S. Casey, P.O. Box 266, Heflin, Alabama, 36264.
- Bell, Richardson, Cleary, McLain & Tucker, P.O. Box 2005, Huntsville, Alabama, 35801.
- Culver & Miller, 122 South Side Square, Huntsville, Alabama, 35801.
- Martinson, Manning & Martinson, P.O. Drawer N, 217-221 Uptown Bldg., Huntsville, Alabama, 35804.
- Morring, Giles, Willisson & Jefferson, Morgil Building, 401 Frankling Street, S.E., Huntsville, Alabama, 35801.
- Dieter J. Schrader, State National Bank Bldg., Suite 332, Huntsville, Alabama, 35801.
- Smith & Huckaby, Suite 636, State National Bank Bldg., Huntsville, Alabama, 35801.
- Watts, Salmon, Roberts & Stephens, P.O. Box 287, Terry Hutchens Building, Huntsville, Alabama, 35801.
- White & Weir, State National Building, Huntsville, Alabama, 35801.
- Mrs. Billie Ann Tucker, 22- 1st Avenue, S.W., Lafayette, Alabama, 36862.
- Wade Drinkard (father: John W. Drinkard, deceased), P.O. Box 563, Linden, Alabama, 36748.
- Charles J. Kettler, Jr., P.O. Box 47, Luverne, Alabama, 36049.
- Gaillard, Wilkins, Smith & Cox, 157-159 N. Conception Street, P.O. Box 164, Mobile, Alabama, 36601.
- Hand, Arendall, Bedsole, Greaves & Johnston, P.O. Box 123, 30th Floor, First National Bank Bldg., Mobile, Alabama, 36601.
- Hobbs, Copeland, Franco, Riggs & Screws, 444 South Perry Street, Montgomery, Alabama, 36101.
- Steiner, Crum & Baker, First National Bank Building, P.O. Box 668, Montgomery, Alabama, 36101.
- Barnett, Bugg & Lee, 103 N. Mount Pleasant Avenue, P.O. Box 288, Monroeville, Alabama, 36460.
- Speake & Speake, 209 South Main Street, P.O. Box 5, Moulton, Alabama, 35650.
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(Foreclosure in the State of Texas is ordinarily effected pursuant to a power of sale contained in the deed of trust. The trustee conducting the foreclosure need not be an attorney. Therefore, some of the persons named above may not be attorneys at law.)

UTAH

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- Harold E. Meier, Professional Building, Lander, Wyoming 82520.
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- Lyman B. Yonkee, 534 Broadway, Thermopolis, Wyoming 82443.

EXHIBIT 9

FNMA Selling Agreement (Supplement)

PART I FNMA SELLING AGREEMENT (SUPPLEMENT) SEC. 103

PART I GENERAL INFORMATION, WARRANTIES AND REPURCHASE OBLIGATION

Section 101. Selling Agreement Supplement.—The material herein, including subsequent changes and additions, is a Supplement to the Selling Agreement (FNMA Form 301) heretofore executed by the Seller and by the Federal National

Mortgage Association (hereinafter called FNMA), is incorporated into such Agreement in full by reference, and is a part thereof as fully as if set forth in such Agreement at length. The Selling Agreement and this Supplement may be collectively referred to as the "Selling Agreement."

This Supplement sets forth the terms and conditions under which FNMA will purchase mortgages, but FNMA is under no obligation to purchase any mortgage loan until the Seller has submitted and FNMA has executed a contract covering a specific transaction.

FNMA reserves the right to alter or waive any of the requirements herein, or to impose other and additional requirements; it similarly reserves the right to recind or amend any or all material set forth in this Supplement.

Section 102. Purpose.—FNMA provides supplementary assistance to the secondary market for residential mortgages by providing a degree of liquidity for mortgage investments thereby improving the distribution of investment capital available for residential mortgage financing. Its operations are confined, insofar as practicable, to the purchase and sale of mortgages which are of such quality, type, and class as to meet, generally, the purchase standards imposed by private institutional mortgage investors.

FNMA also makes short-term loans on the security of mortgages and, on a negotiated basis, will purchase participations in mortgages.

FNMA's activities, as covered in this Selling Agreement (Supplement), are limited to mortgages and loans insured by the Federal Housing Administration (FHA) or the Farmers Home Administration of the Department of Agriculture (FHDA) or guaranteed by the Veterans Administration (VA). Information regarding FHDA loans may be obtained from the local FNMA office.

Section 103. Eligible Sellers.—A Seller is an organized business enterprise which has as one of its principal purposes the making or purchasing of loans secured by real estate mortgages. Such mortgage loans or purchases must customarily be made in the regular, usual, and normal course of business. An organization which makes or purchases such loans occasionally only, or in special circumstances only, e.g., in aid of another of its principal purposes, does not come within this definition. Each Seller must at all times meet FNMA's requirements and acceptability standards and:

(a) *For FHA Mortgages*, Seller must be an FHA-approved mortgagee.

(b) *For VA Mortgages*, Seller must come within one of the following three classifications:

(1) A "Supervised Lender" as classified by VA under Section 500(d) of the Servicemen's Readjustment Act, including any national bank, state bank, private bank, building and loan association or insurance company, which is subject to examination and supervision by an agency of the United States, or of any state, including the District of Columbia; or

(2) An FHA-approved mortgagee; or

(3) Any other Lender, qualifying as a Seller with a net worth of not less than \$100,000 in assets acceptable to FNMA. This net worth must be maintained at all times.

Section 104. Termination of Selling Agreement.—FNMA or the Seller may terminate the Selling Agreement in the manner therein provided.

Sellers are required to comply with any applicable rules, regulations, and orders of general applicability issued under Title VI of the Civil Rights Act of 1964, and with Executive Order 11063, Equal Opportunity in Housing, issued by the President of the United States on November 20, 1962, in accordance with the applicable FHA and VA rules and regulations, and failure to so comply may be considered as basis for termination of the Selling Agreement.



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